The District's investment policies allow for investments in obligations of U.S. Treasury and other Federal agency securities, State Treasury and other state and local governmental agency securities, bankers' acceptances, commercial paper, mortgage securities, medium-term corporate notes and the State Treasurer's Local Agency Investment Fund, as well as certain investments commonly referred to as "derivatives."

Included in the District's investments at December 31, 1995 and 1994 are derivatives. Derivatives are generally defined as contracts whose value depends on, or derives from, the value of an underlying asset, reference rate or index. The derivative investments held by the District during 1995 and 1994 consisted of "inverse-floaters," which were originally purchased to improve the District's overall rate of return on its investments. These derivative investments consist of Federal Home Loan Mortgage Corp., Federal Farm Credit Bank and Federal Home Loan Bank Notes and are included in U.S. Government agency securities.

The District's inverse floaters, which are financial instruments whose interest rates vary inversely with a particular published index or rate, consisted of two types of inverse floaters: single and dual indexed. The single indexed floaters totaled $19,242,294 and $28,659,996 at December 31, 1995 and 1994, respectively, and vary indirectly with a multiple of either the one- or six-month London Inter-Bank Offering Rate (LIBOR) which reset monthly or semiannually, respectively. The dual indexed floaters, which also vary directly with another index, totaled $2,000,000 and $3,934,000 at December 31, 1995 and 1994, respectively. Because of the nature of these inverse floaters, as general interest rate levels increase, the pay rate on the investments decrease, resulting in a decline in interest income as well as a decline in market value. The weighted average interest rate on the inverse floaters was 2.14% and 4.66%, and the unrealized loss was $1,473,881 and $4,442,280 (88.0% and 57.7% of total portfolio unrealized losses) at December 31, 1995 and 1994, respectively.

The District's investments at December 31, 1995 and 1994 are categorized by the level of custodial risk assumed by the District. The risk categories are defined as follows:

Category 1: includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name.

Category 2: includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name.

Category 3: includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the District's name.

Not Required to be Categorized: investments in pools managed by other governments or investment services in which the District owns a share of the total pool, but does not own specific underlying investments within such pool. This includes investments in the State Treasurer's Local Agency Investment Fund (LAIF) and mutual funds. The District does not have detail of the portfolios of LAIF or the mutual funds at December 31, 1995 and 1994.

The District's investments at December 31, 1995 and 1994 are categorized by level of custodial risk in the following table:

	1995 Carrying amount	1995 Market value/ contractual amount	1994 Carrying amount	1994 Market value/ contractual amount
Risk category 1:				
U.S. Government securities	$ 8,212,727	8,239,514	3,330,981	3,288,312
U.S. Government agency securities	32,381,758	31,294,583	42,687,138	37,662,169
Medium-term corporate notes	19,497,648	19,472,937	8,559,350	8,077,902
Negotiable certificates of deposit	100,000	100,000	100,000	100,000
Total risk category 1	60,192,133	59,107,034	54,677,469	49,128,383
Risk category 2:				
U.S. Government agency securities	39,136,787	38,917,130	37,679,444	36,700,613
Medium-term corporate notes	3,026,670	3,101,340	6,978,100	6,848,450
Total risk category 2	42,163,457	42,018,470	44,657,544	43,549,063
Risk category 3:				
U.S. Government agency securities	3,339,969	3,300,797	3,626,054	2,966,496
Negotiable certificates of deposit	13,022	13,022	7,112	7,112
Total risk category 3	3,352,991	3,313,819	3,633,166	2,973,608
Investments not required to be categorized:				
State Treasurer's Local Agency Investment Fund	8,400,000	8,400,000	5,500,000	5,500,000
Mutual fund investments	4,364,708	3,958,591	6,785,445	6,400,343
Employee deferred compensation plan (held in mutual funds)	15,674,212	15,674,212	13,859,002	13,859,002
Total investments not required to be categorized	28,438,920	28,032,803	26,144,447	25,759,345
Net unrealized loss on investments	--	1,675,375	--	7,702,227
Total investments	134,147,501	$ 134,147,501	129,112,626	129,112,626
Cash deposits	4,043,761		4,906,014	
Net cash and investments	$ 138,191,262		134,018,640	

(1) Summary of Significant Accounting Policies

Reporting Entity

The Imperial Irrigation District (the District) is a public entity organized in 1911 under the California Irrigation District Law (codified at Division 11 of the California Water Code). The District has the powers under the law to, among other things, provide irrigation and electric service within its geographic boundaries. In connection therewith, the District has the powers of eminent domain to contract, to construct works, to fix rates and charges for commodities or services furnished and to incur indebtedness.

The District is governed by a five-member Board of Directors elected by the citizens residing within the District's boundaries.

Basis of Presentation

The account classification structures used by the District conform to generally accepted accounting principles consistent with enterprise fund accounting. The accounting records of the District are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, regardless of when received, and expenses are recognized when incurred, regardless of when paid. The effects of interdepartmental transactions have not been eliminated at the individual department level, as the Board of Directors of the District believes that the operating results of such departments should remain separate to facilitate management review and appropriate rate setting. Such separation is also required for evidence of compliance with debt agreements relating to the District's outstanding Certificates of Participation.

Separate accounting records are maintained for the Water and Power Departments of the District. The account classifications used by the District for accounting and financial reporting purposes are comparable to those used by other irrigation districts and electric utilities. The account classifications used by the Power Department are specified by the Uniform System of Accounts as prescribed by the U.S. Federal Energy Regulatory Commission. The account classifications of the Water Department were adopted to facilitate computations required under a provision of the All-American Canal contract *(see note 7)*.

In accordance with Government Accounting Standards Board (GASB) Statement No. 20, the District applies all applicable GASB pronouncements as well as the pronouncements of the Financial Accounting Standards Board (FASB) and its predecessor bodies issued on or before November 30, 1989, unless those pronouncements contradict GASB pronouncements.

Utility Plant

Utility plant is stated at cost and includes labor, materials, interest capitalized during the construction period, purchased services and certain overhead items. Water and electric plant retirements are removed from the accounts at cost, together with the related accumulated depreciation. Any gains or losses resulting from retirements are recorded as nonoperating revenues or expenses.

The District has an undivided interest in certain power generation stations and transmission systems that are jointly owned with several utilities. The operating agreement under which the facilities were constructed required that each participant provide its own construction financing. The District's proportionate share of construction and improvement costs for such jointly owned facilities is included in the appropriate category of utility plant. The District incurs certain minimum operating costs on jointly owned facilities, whether or not it is able to take delivery of its proportionate share of energy generated *(see note 12)*. Such expenses incurred are included in the accompanying combined statements of income.

Depreciation

Buildings, vehicles, equipment, drainage structures, canal linings and canal structures owned by the Water Department and Power Department are depreciated on a straight-line basis over their estimated useful lives. Expenditures which materially increase utility plant lives are capitalized, while costs of maintenance and repairs are charged to expense as incurred. Depreciation on fixed assets acquired through contributions in aid of construction is deducted from such contributions with a corresponding increase to retained earnings.

Inventories

Inventories consisting of fuel oil, materials and supplies are recorded at cost on a first-in, first-out, weighted-average basis.

Revenues

The principal customers of the Water Department are farm operators and cities, which in turn resell such water to their customers. The Water Department's customers are billed at the end of each month for sales made during the month. In addition, each landowner pays an annual water availability fee that is based upon acreage held within the District. Customers of the Power Department are billed on a cyclical basis. Water and power revenues are recorded when billed, except for the water availability fee which is billed in December but recorded as revenue ratably throughout the year; accordingly, such billings are considered to be deferred revenues. Unbilled water and electric service revenues are not considered significant.

Refundable to Customers

Fuel costs billed to power customers in excess of actual fuel costs incurred are considered refundable to the customer. Such costs are refunded through subsequent reductions of fuel costs billed.

Restricted Assets

Restricted funds represent allocations of cash balances pursuant to provisions of the All-American Canal contract, the covenants of the Certificates of Participation, deposits of employee-deferred compensation and for other purposes specified by the Board of Directors.

Cash and Investments

The District invests its idle cash on a daily basis. Other investments consist primarily of Federally backed securities, bank certificates of deposit, medium-term corporate notes, mutual fund investments and other investments commonly referred to as "derivatives." The District also has an employee deferred compensation plan under which investments of varying types are made on behalf of the participants.

Such investments are stated at amortized cost, except for the deferred compensation plan assets, which are stated at market value.

The District considers all cash and cash deposits, investments in the State Treasurer's Local Agency Investment Fund, investments in mutual and similar funds and other investments with initial maturities of less than 90 days to be cash and cash equivalents for purposes of the accompanying combined statements of cash flows.

Reclassifications

Certain amounts reported in the 1994 combined financial statements have been reclassified to correspond to the 1995 presentation.

(2) Cash and Investments

The District maintains a general cash and investment pool for the purpose of maximizing investment returns for all funds except those required to be held by outside fiscal agents and funds in its employee deferred compensation plan. The District's cash and investments portfolio had aggregate net unrealized losses of $1,675,375 and $7,702,227 at December 31, 1995 and 1994, respectively.

The District believes it has the ability and intent to hold such securities until their respective maturity dates, thus reducing the risk that such unrealized losses will become realized at some future date.

The District's cash deposits at December 31, 1995 and 1994 were either entirely insured by appropriate Federal depository insurance or collateralized with collateral held by the pledging financial institution's trust department or agent in the District's name in accordance with provisions of the California Government Code. The carrying amount and bank balance of the District's deposits at December 31, 1995 and 1994 are as follows:

	1995	
	Carrying amount	Bank balance
Insured	$ 326,746	254,932
Collateralized	3,717,015	5,409,060
Total cash deposits	$ 4,043,761	5,663,992

	1994	
	Carrying amount	Bank balance
Insured	$ 252,059	519,198
Collateralized	4,653,955	6,607,274
Total cash deposits	$ 4,906,014	7,126,472

(3) Utility Plant

Utility plant is comprised of the following at December 31, 1995 and 1994:

	1995			1994		
	Water Department	Power Department	Combined	Water Department	Power Department	Combined
Land and land rights	$ 8,149,743	7,269,051	15,418,794	8,113,619	5,864,194	13,977,813
Structures and improvements	6,453,187	70,266,855	76,720,042	6,238,371	66,845,736	73,084,107
Canals	159,056,979	--	159,056,979	147,899,862	--	147,899,862
Drainage	41,005,992	--	41,005,992	35,268,940	--	35,268,940
All-American Canal	23,863,478	--	23,863,478	23,863,478	--	23,863,478
Conservation equipment	961,285	--	961,285	961,833	--	961,833
Dredges and field equipment	6,589,978	1,695,118	8,285,096	6,956,880	1,540,369	8,497,249
Automobiles and trucks	8,496,588	10,905,674	19,402,262	8,140,587	10,573,510	18,714,097
Other plant equipment	22,277,387	29,800,626	52,078,013	20,877,607	28,378,009	49,255,616
Steam plant equipment	--	104,316,243	104,316,243	--	107,502,435	107,502,435
Hydroelectric generating equipment	--	21,775,297	21,775,297	--	21,569,333	21,569,333
Gas turbines	--	23,968,044	23,968,044	--	23,952,880	23,952,880
Transmission plant	--	198,082,849	198,082,849	--	193,871,633	193,871,633
Distribution plant	--	239,953,100	239,953,100	--	223,200,229	223,200,229
Reservoirs and dams	5,021,810	3,644,671	8,666,481	4,977,445	3,621,022	8,598,467
Plant in service	281,876,427	711,677,528	993,553,955	263,298,622	686,919,350	950,217,972
Less accumulated depreciation:						
Balance at beginning of year	52,307,976	196,165,513	248,473,489	47,764,897	179,136,318	226,901,215
Add:						
Depreciation of fixed assets not acquired through contributions	2,926,964	19,603,535	22,530,499	2,916,362	17,456,445	20,372,807
Depreciation of fixed assets acquired through contributions	3,395,004	1,468,155	4,863,159	3,188,527	1,599,684	4,788,211
Less retirements, net	(291,093)	(4,110,627)	(4,401,720)	(1,561,810)	(2,026,934)	(3,588,744)
Balance at end of year	58,338,851	213,126,576	271,465,427	52,307,976	196,165,513	248,473,489
	223,537,576	498,550,952	722,088,528	210,990,646	490,753,837	701,744,483
Construction in process	610,850	1,896,263	2,507,113	518,432	1,611,911	2,130,343
Net book value of utility plant assets	$ 224,148,426	500,447,215	724,595,641	211,509,078	492,365,748	703,874,826

Depreciation and amortization expense for the years ended December 31, 1995 and 1994 are allocated as follows:

	1995			1994		
	Water Department	Power Department	Combined	Water Department	Power Department	Combined
Included in operation and maintenance expenses	$ 822,934	808,251	1,631,185	1,079,234	1,108,505	2,187,739
Provision for depreciation	5,499,034	20,263,439	25,762,473	5,025,655	17,947,624	22,973,279
Total depreciation	6,321,968	21,071,690	27,393,658	6,104,889	19,056,129	25,161,018
Amortization of contributions	(3,395,004)	(1,468,155)	(4,863,159)	(3,188,527)	(1,599,684)	(4,788,211)
Net reduction of retained earnings from depreciation	$ 2,926,964	19,603,535	22,530,499	2,916,362	17,456,445	20,372,807

(4) Deferred Compensation Plan

The District offers a Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457 to its employees, allowing them to defer or postpone receipt of income. Amounts so deferred may not be paid to the employee during employment with the District except for a catastrophic circumstance creating an undue financial hardship for the employee.

Investments made under the Deferred Compensation Plan are stated at market value, and all gains and losses realized on such investments accrue directly to the benefit or detriment of the participants. At December 31, 1995 and 1994, net assets available for benefits amounted to $15,674,212 and $13,859,002, respectively.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are, until paid or made available to the employee or other beneficiary, solely the property and rights of the District, without being restricted to the provisions of benefits under the plan, subject only to the claims of the District's general creditors. Participant's rights under the plan are equal to those general creditors of the District in an amount equal to the fair market value of the deferred account for each participant.

It is the opinion of the District's legal counsel that the District has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor. The District believes that it is unlikely that it will use the assets of the plan to satisfy the claims of general creditors in the future.

(5) Long-Term Debt

Long-term debt consists of the following at December 31, 1995 and 1994:

1995

	Water Department Current portion	Water Department Long-term portion	Power Department Current portion	Power Department Long-term portion	Total
Certificates of Participation - 1990, net of unamortized original issue discount of $1,019,181 and cumulative accretion of $2,308,552 on capital appreciation certificates *(note 6)*	$ --	--	4,335,000	40,259,369	44,594,369
Certificates of Participation - 1991, net of unamortized original issue discount of $33,456 *(note 6)*	--	--	6,350,000	13,741,544	20,091,544
Certificates of Participation - 1993, net of unamortized original issue discount of $417,685 *(note 6)*	--	--	395,000	42,722,315	43,117,315
Certificates of Participation - 1994, net of unamortized original issue premium of $296,415 *(note 6)*	--	--	100,000	59,801,415	59,901,415
Water bonds payable *(note 8)*	70,547	1,809,997	--	--	1,880,544
Obligation under capital lease *(note 9)*	295,144	835,435	383,918	1,125,607	2,640,104
	$ 365,691	2,645,432	11,563,918	157,650,250	172,225,291

1994

	Water Department Current portion	Water Department Long-term portion	Power Department Current portion	Power Department Long-term portion	Total
Certificates of Participation - 1990, net of unamortized original issue discount of $1,090,454 and cumulative accretion of $1,825,157 on capital appreciation certificates *(note 6)*	$ --	--	4,070,000	44,039,703	48,109,703
Certificates of Participation - 1991, net of unamortized original issue discount of $48,002 *(note 6)*	--	--	6,030,000	20,076,998	26,106,998
Certificates of Participation - 1993, net of unamortized original issue discount of $447,952 *(note 6)*	--	--	385,000	43,087,048	43,472,048
Certificates of Participation - 1994, net of unamortized original issue premium of $309,279 *(note 6)*	--	--	100,000	59,914,279	60,014,279
Water bonds payable *(note 8)*	67,800	1,880,544	--	--	1,948,344
Obligation under capital lease *(note 9)*	171,980	252,242	130,130	374,816	929,168
	$ 239,780	2,132,786	10,715,130	167,492,844	180,580,540

(6) Certificates of Participation

1990 Issue

In April 1990, the District issued $103,815,000 of 1990 Certificates of Participation (1990 COPs) to finance the retrofitting of a generating unit at the District's El Centro Steam Plant, the purchase of an existing steam-electric generating unit and combustion turbine-electric generating unit, the construction of an office facility and additions and improvements to the District's transmission and distribution facilities, including normal additions and extensions.

1990 COPs in the form of current interest certificates mature from 1990 through 2009, inclusive, with interest of 5.8% to 7.8% payable semiannually. 1990 COPs in the form of capital appreciation certificates mature from 2000 through 2004, for which interest compounds semiannually but is not paid until maturity or earlier redemption. These certificates were recorded net of original issue discount of $2,482,399.

The 1990 COPs' terms of the obligation indenture require maintenance of certain financial ratios with which the District has complied for 1995 and 1994.

On August 26, 1993, the District issued $44,295,000 of 1993 Refunding Certificates of Participation (1990 Electric System Project) (1993 COPs) to partially defease $39,380,000 of outstanding 1990 COPs (those serial current interest 1990 COPs maturing November 1, 2001 and 2003, and those term current interest 1990 COPs maturing November 1, 2005 and 2009). These 1990 COPs are considered to be defeased and the liability for those COPs has been removed from the District's combined balance sheet (see 1993 Issue elsewhere in this note). The balance outstanding of 1990 COPs considered defeased was $39,380,000 at December 31, 1995 and 1994.

The outstanding balance of 1990 COPs was $44,594,369 and $48,109,703, net of the unamortized original issue discount of $1,019,181 and $1,090,454 and cumulative accretion on capital appreciation certificates of $2,308,552 and $1,825,157 at December 31, 1995 and 1994, respectively.

A summary of debt service for the District's outstanding 1990 COPs is as follows (accretion on capital appreciation certificates is included in interest in year paid):

Due date	Principal amount	Interest	Total debt service
November 1, 1996	$ 4,335,000	2,572,643	6,907,643
November 1, 1997	4,615,000	2,290,868	6,905,868
November 1, 1998	4,920,000	1,986,278	6,906,278
November 1, 1999	5,245,000	1,656,638	6,901,638
November 1, 2000	4,730,379	2,171,797	6,902,176
Thereafter	19,459,619	12,430,576	31,890,195
	$ 43,304,998	23,108,800	66,413,798

1991 Issue

In December 1991, the District issued $32,925,000 of 1991 Refunding Certificates of Participation (1983 Electric System Project) (1991 COPs) at an average interest rate of 5% to advance refund $30,010,000 of outstanding 1983 COPs maturing on or after May 1, 1994. These 1983 COPs maturing on or after May 1, 1994 are considered to be defeased and the liability for those COPs has been removed from the District's combined balance sheet. The balance of 1983 COPs considered defeased was repaid in 1993.

The 1991 COPs are payable annually on May 1 in amounts from $630,000 to $7,070,000. Interest is payable semiannually on November 1 and May 1 at rates ranging from 4.3% to 5.75%.

The 1991 COPs' terms of the obligation indenture require maintenance of certain financial ratios with which the District has complied for 1995 and 1994.

The outstanding balance of 1991 COPs was $20,091,544 and $26,106,998, net of unamortized original issue discount of $33,456 and $48,002, at December 31, 1995 and 1994, respectively.

A summary of debt service for the District's outstanding 1991 COPs is as follows:

Due date	Principal amount	Interest	Total debt service
May 1, 1996	$ 6,350,000	958,306	7,308,306
May 1, 1997	6,705,000	595,103	7,300,103
May 1, 1998	7,070,000	203,263	7,273,263
	$ 20,125,000	1,756,672	21,881,672

1993 Issue

On August 26, 1993, the District issued $44,295,000 of 1993 Refunding Certificates of Participation (1990 Electric System Project) (1993 COPs) at an average interest rate of 4.9% to advance refund $39,380,000 of outstanding 1990 COPs which mature on November 1, 2001, 2003, 2005 and 2009 with an average interest rate of 6.8%. The net proceeds of $43,220,366 (after payment of $1,074,634 in underwriting fees and other issuance costs) plus an additional $1,197,061 of 1990 COPs reserve and other fund monies were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1990 COPs being defeased. As a result, the 1990 COPs maturing on November 1, 2001, 2003, 2005 and 2009 are considered to be defeased and the liability for those COPs has been removed from the District's combined balance sheet.

Although the advance refunding resulted in the recognition of an accounting loss of $5,132,205 for the year ended December 31, 1993, the District in effect reduced its aggregate debt service payments by $2,118,243 over the next seven years resulting in an economic gain (difference between the present values of the old and new debt service) of $1,333,031.

The 1993 COPs are payable annually on November 1 in amounts from $375,000 to $8,970,000. Interest is payable semiannually on November 1 and May 1 at rates ranging from 2.7% to 5.2%.

The 1993 COPs' terms of the obligation indenture require maintenance of certain financial ratios with which the District has complied for 1995 and 1994.

The outstanding balance of 1993 COPs was $43,117,315 and $43,472,048, net of unamortized original issue discount of $417,685 and $447,952, at December 31, 1995 and 1994, respectively.

A summary of debt service for the District's outstanding 1993 COPs is as follows:

Due date	Principal amount	Interest	Total debt service
November 1, 1996	$ 395,000	2,135,698	2,530,698
November 1, 1997	410,000	2,121,478	2,531,478
November 1, 1998	425,000	2,105,488	2,530,488
November 1, 1999	445,000	2,088,275	2,533,275
November 1, 2000	460,000	2,069,585	2,529,585
Thereafter	41,400,000	11,655,540	53,055,540
	$ 43,535,000	22,176,064	65,711,064

1994 Issue

On April 19, 1994, the District issued $59,805,000 of Certificates of Participation (1994 Electric System Project) (1994 COPs) to provide funds to finance a portion of the costs of the 1994 Electric System Project, consisting of major additions and improvements to the District's electric system.

The 1994 COPs consist of $500,000 serial certificates at rates ranging from 3.00% to 4.50% maturing on November 1, 1994 through 1998 and $59,305,000 term certificates maturing on November 1, 2004, 2011, 2015 and 2018 at 6.00%, 6.75%, 6.00% and 6.00%, respectively. The term certificates are subject to mandatory prepayment prior to their respective maturity dates, in part by lot beginning November 1, 1999, 2005, 2012 and 2016, respectively. The certificates maturing on and after November 1, 2005 are subject to prepayment prior to their respective maturity dates at the option of the District as a whole or in part on any date on or after November 1, 2004. Any prepayments on November 1, 2004 through October 31, 2005 are subject to a prepayment premium of 2%; November 1, 2005 through October 31, 2006, 1%, and no prepayment premium thereafter.

The 1994 COPs were issued with an original issue premium of $318,375 and costs of issuance of $1,046,806, which are amortized to interest expense over the life of the 1994 COPs. The outstanding balance of 1994 COPs was $59,901,415 and $60,014,403 at December 31, 1995 and 1994, respectively, including unamortized original issue premium of $296,415 and $309,396, respectively.

The terms of the 1994 COPs Installment Purchase Contract require maintenance of certain financial ratios with which the District has complied for 1995 and 1994.

A summary of debt service for the District's outstanding 1994 COPs is as follows:

Due date	Principal amount	Interest	Total debt service
November 1, 1996	$ 100,000	3,665,400	3,765,400
November 1, 1997	100,000	3,661,400	3,761,400
November 1, 1998	100,000	3,657,000	3,757,000
November 1, 1999	430,000	3,652,500	4,082,500
November 1, 2000	450,000	3,626,700	4,076,700
Thereafter	58,425,000	48,617,888	107,042,888
	$ 59,605,000	66,880,888	126,485,888

(7) All-American Canal Contract

Pursuant to the terms of the Boulder Canyon Project, the All-American Canal contract dated December 1, 1932 and the amendment and supplement to that contract dated March 4, 1952, the District assumed an initial obligation of $25,020,000 to the Federal Government. This amount represents the District's share of the All-American Canal system construction costs. This obligation has been allocated to the Water and Power Departments based on the relative cost of each department's respective utility plant located on the All-American Canal system. Except for the final combined payments of $613,075 made in 1994, no other amounts are due to the Federal Government for water supplied to the District.

The District receives its entire water supply for its irrigation system from the Federal Government under this contract. Deliveries of water and use of the All-American Canal are guaranteed, in perpetuity, to the District as long as the provisions of the contract are met.

Under the All-American Canal contract and certain other agreements, the District has the right to avail itself of hydroelectric generation from the water flow through the Canal, subject to the sharing of certain derived revenues with another water district. The most significant of such sharing arrangements is with the Coachella Valley County Water District (Coachella). In 1934, Coachella leased its power rights on the Canal to the District for a period of 99 years. Expenses under this agreement are paid to the Federal Government for the credit of Coachella and are regarded as payments made under the District's normal obligation under the All-American Canal contract.

(8) Bonds Payable

In 1988, pursuant to the State of California Clean Water Bond Law of 1984, the State of California loaned the District $1,600,000 to pay costs associated with a water conservation program. The amounts are payable in semiannual installments on April 1 and October 1 until the principal is repaid. Interest accrues at 4.013% per annum.

In 1990, the State of California loaned the District an additional $680,000 to pay for eligible project costs, therefore increasing the total obligation to $2,280,000. The unpaid balance at December 31, 1995 and 1994 was $1,880,544 and $1,948,343, respectively.

The debt service on such obligation is as follows:

	Principal	Interest	Total debt service
1996	$ 70,548	74,763	145,311
1997	73,407	71,904	145,311
1998	76,382	68,929	145,311
1999	79,478	65,833	145,311
2000	82,699	62,612	145,311
Thereafter	1,498,030	442,243	1,940,273
	$ 1,880,544	786,284	2,666,828

(9) Capital Leases

The District has acquired certain operating and computer equipment through lease purchase agreements. The District also acquired real property in El Centro through a lease purchase agreement extending over a ten-year period.

A summary of the lease payments is as follows:

	Operating equipment	Computer equipment	Real property	Total
1996	$ 602,154	168,067	53,416	823,637
1997	600,921	166,097	53,416	820,434
1998	551,824	141,588	53,416	746,828
1999	430,160	295	53,416	483,871
2000	85,390	--	4,451	89,841
	2,270,449	476,047	218,115	2,964,611
Less interest portion	(256,177)	(37,594)	(30,736)	(324,507)
Net	$ 2,014,272	438,453	187,379	2,640,104

(10) Employee Benefit Plan

The District has a defined benefit pension plan (the Plan) covering substantially all of its employees. Under the terms of the Plan, employees are eligible to participate after completing six months of continuous service. Employees become vested in the Plan after four years of continuous service and after attaining the age of 40.

The District's contribution to the Plan is determined by the aggregate-entry-age-normal-cost method. That is, it takes into account those benefits that are expected to be earned in the future as well as those already accrued. Contributions made by the District and retirement benefits vary depending upon the age of the employee at the date of entry into the Plan, the average basic salary attained and the employee's retirement age.

The District's contributions to the Plan were as follows:

	December 31 1995	December 31 1994
Normal cost	$ 2,200,502	2,080,623
Unfunded actuarial accrued liability	1,554,995	1,604,022
Total contributions	$ 3,755,497	3,684,645

Retirement benefits are payable beginning at age 65 based on 75% of the employee's highest basic monthly salary times the ratio of completed months of credited service. Vested employees may retire at or after age 55 and receive reduced retirement benefits provided 10 years of continuous service has been achieved. Benefits are payable based on the actuarial equivalent of accrued benefits. The Plan also includes death and disability benefits.

A summary of the financial position of the Plan at January 1, 1995 and 1994, the most recent actuarial data available, is as follows:

	January 1 1995	January 1 1994
Pension benefit obligation:		
Inactive employees:		
Retirees	$ 65,551	65,024
Vested terminated	48,146	--
	113,697	65,024
Active employees:		
Accumulated employee contributions	4,427,509	4,507,024
Employer-paid vested benefits	22,710,827	19,124,813
Employer-paid nonvested benefits	2,103,799	2,966,333
	29,242,135	26,598,170
Total pension benefit obligation	29,355,832	26,663,194
Net assets available for benefits	30,404,679	26,738,997
Net assets in excess of pension benefit obligation	$ 1,048,847	75,803

The term "pension benefit obligation" reflects the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. Significant assumptions used to determine the pension benefit obligation and the actuarial accrued liability include:

- A rate of return on the investment of present and future assets of 7.5%
- Salary increases of 6% per year compounded annually
- Loading for expenses: 2% of gross cost
- Retirement age of 65

Certain historical trend information is summarized as follows:

	December 31 1995	1994
Total payroll	$ 50,923,452	49,380,314
Covered payroll	$ 47,046,072	44,151,673
District contributions as a percentage of annual covered payroll	7.98%	8.35%

Additional trend information is as follows (information not available prior to 1989):

	December 31 1995	1994	1993	1992	1991	1990	1989
Net assets available for benefits	$ 30,404,679	26,738,997	31,845,448	29,711,272	26,670,346	25,605,788	23,501,467
Pension benefit obligation	29,355,832	26,663,194	25,411,936	23,796,289	22,088,928	20,603,450	16,359,777
Percent funded	103.57%	100.28%	125.32%	124.86%	120.74%	124.28%	143.65%
Assets in excess of pension benefit obligation	$ 1,048,847	75,803	6,433,512	5,914,983	4,581,418	5,002,338	7,141,690
Annual covered payroll	47,046,072	44,151,673	44,157,842	41,459,746	38,098,392	33,682,560	29,945,040
Assets in excess of pension benefit obligation as a percent of covered payroll	2.23%	.17%	14.57%	14.27%	12.03%	14.85%	23.85%
Total District contributions	$ 3,755,497	3,684,645	3,331,698	3,133,898	2,365,294	2,030,677	1,696,000
District contributions as a percent of annual covered payroll	7.98%	8.35%	7.55%	7.56%	6.20%	6.02%	5.66%

Amounts charged to operations were $3,755,497 and $3,684,645 for 1995 and 1994, respectively.

(11) Interdepartmental Transactions

Although the Water and Power Departments of the District maintain separate accounting records, there are certain interdepartmental transactions. Significant transactions primarily involve charges by the Water Department to the Power Department for the use of water to generate electricity on the canal system and for the use of buildings, vehicles and equipment.

The interdepartmental charge for use of water in the All-American Canal to generate electricity is based upon amounts authorized by the Board of Directors in 1976 and 1988.

Charges for use of buildings, vehicles and equipment are based upon a pro rata distribution of costs of related maintenance operation and depreciation.

General and administrative expenses of the District are allocated between departments, with the majority of the expenses allocated 50% to the Power Department and 50% to the Water Department.

(12) Commitments and Contingencies

Litigation

In the ordinary course of operations, the District is the subject of claims and litigation from outside parties. After consultation with legal counsel, the District believes that adequate provision has been made for the costs, if any, of the ultimate outcome of the legal proceedings, such that these matters will not materially affect the District's combined financial condition.

Self-insurance

The District is self-insured for workers' compensation claims and employee medical care benefits. At December 31, 1995 and 1994, the District accrued $2,852,000 and $2,852,000, respectively, for estimated claims to be paid in the future. In addition, the District is partially self-insured for general claims and carries excess insurance coverage for general liability matters. At December 31, 1995 and 1994, the District's management accrued $13,815,000 and $15,315,000, respectively, for estimated claims. Such amounts have been included in other accrued expenses in the accompanying combined balance sheets for 1995 and 1994, respectively.

Take or Pay Contracts

The District has two energy and capacity contracts with Southern California Public Power Authority (SCPPA), a joint powers authority organized under the laws of the state of California. Under the first contract, the District purchases 6.5% of the energy generated by SCPPA's 5.91% ownership in the Palo Verde Nuclear Project (the Palo Verde Project), a nuclear-fueled generating station. Under the second contract, the District purchases 50.98% of the capacity and energy generated by SCPPA's 41.8% ownership of the San Juan Unit 3 Project (the San Juan Project). The terms of the contracts require that the District make certain minimum payments, whether or not the District receives power, based upon the debt service requirements of the projects. The District's estimates of such minimum payments are:

	Palo Verde Project	San Juan Project	Total SCPPA take or pay commitment
1996	$ 5,093,000	7,650,000	12,743,000
1997	5,868,000	9,188,000	15,056,000
1998	5,869,000	9,188,000	15,057,000
1999	5,869,000	9,188,000	15,057,000
2000	5,869,000	9,187,000	15,056,000
Thereafter	95,545,000	165,366,000	260,911,000
	$ 124,113,000	209,767,000	333,880,000

The District makes monthly payments to SCPPA for its portion of costs, which includes charges for decommissioning the nuclear power plant and acquisition, operation and maintenance of the electric generating plant. Such charges are recorded by the District as cost of fuel in the accompanying combined statements of income.

Energy Supply Purchase Commitment

The District has an energy supply contract with El Paso Electric Company. The agreement terminates April 30, 2002. The purchase commitment is all energy supplied under the contract up to 150 megawatts. All energy over 150 megawatts is to be charged at a fixed rate. The District's estimated yearly purchase commitment under this agreement is as follows:

1996	$ 35,460,000
1997	35,460,000
1998	35,460,000
1999	35,460,000
2000	35,460,000
Thereafter	70,920,000
	$ 248,220,000

Heber-Mirage Transmission Project

The District entered into an agreement with several independent small power producers operating in the Imperial Valley. The agreement provided for the construction of the Heber-Mirage Transmission Project (Project) consisting of a new electric transmission line and alternative energy resource facility. The Project was funded entirely by the participants and was completed in 1988. The total extent of the participants' funding contributions, as provided for by the agreement, totaled $65,188,400.

In exchange for such funding contributions to construct the Project, the District agreed to grant each participant transmission credits equal to the total amount of their respective contributions, including finance costs and other fees. These transmission credits are used to offset periodic energy billings for power generated by the Project and sold to the participants, and expire after 15 years from the completion date of the Project. Such credits, which totaled $18,886,633 and $8,966,453 in 1995 and 1994, respectively, are recorded as revenue and a corresponding reduction of contributed capital in the accompanying combined financial statements.

Postretirement Benefits

In addition to the pension benefits described in note 11 to the combined financial statements, the District provides health and medical insurance benefits for its retired employees. Employees are eligible upon reaching the normal retirement age of 65 or upon early retirement at 55 with ten years of service. Approximately 260 employees meet the eligibility requirements. The District pays the majority of the monthly premium depending upon the age of the employee and the number of dependents the employee wished to include in the plan. Expenses for this plan are recognized on a "pay-as-you-go" basis. Premiums for such health benefits, which are not significant as compared to total administrative expenses, are expensed when claims are paid and amounted to approximately $1,274,000 and $1,457,000 for 1995 and 1994, respectively.

(13) Metropolitan Water District Water Conservation Program

Beginning in January 1990, the District received payments from the Metropolitan Water District of Southern California (MWD), to initiate a water conservation program. The purpose of such payments is to provide capital for District-constructed water conservation projects in the Imperial Valley. In 1995 and 1994, the District received $11,237,754 and $11,347,959, respectively, as reimbursement for approved capital costs. Cumulative payments received total approximately $108,720,909 and $97,483,155 at December 31, 1995 and 1994, respectively. The District will be reimbursed for approved amounts, including certain indirect costs, through the year 2028. In return for such payments, MWD will be entitled to receive the water that is estimated to be conserved as a result of the implemented conservation measures. In 1993, the District received an additional $4,600,000 from MWD that is included in other restricted cash and has been set aside for indirect costs.

(14) Voluntary Staff Reduction Program

On November 21, 1995, the Board of Directors authorized a voluntary staff reduction program to become effective January 27, 1996. The program was offered to all employees with at least four years of continuous active service.

Program incentives provided a one-time cash bonus equal to one week of base salary for each year of active service and an additional three years of credited service to the pension plan. Eighty employees elected to participate in the program.

The cash bonus totaled approximately $2,100,000 and is included in accrued compensation and payroll taxes in the accompanying combined financial statements. Also included in accrued compensation and payroll taxes in the accompanying combined financial statements is approximately $1,870,000 representing management's estimate of the required additional contributions to the pension plan. No decision has been made as to the exact timing for the payment of such additional pension contribution requirement.

Eligible sick leave and vacation of approximately $1,070,000 and $330,000, respectively, has also been included in accrued compensated absences in the accompanying combined financial statements.

As a result of implementing this program, the District estimates a net cost savings of approximately $1,430,000 in 1996 and additional future salary and benefit savings totaling approximately $6,000,000 thereafter.

IMPERIAL IRRIGATION DISTRICT

External Affairs Department
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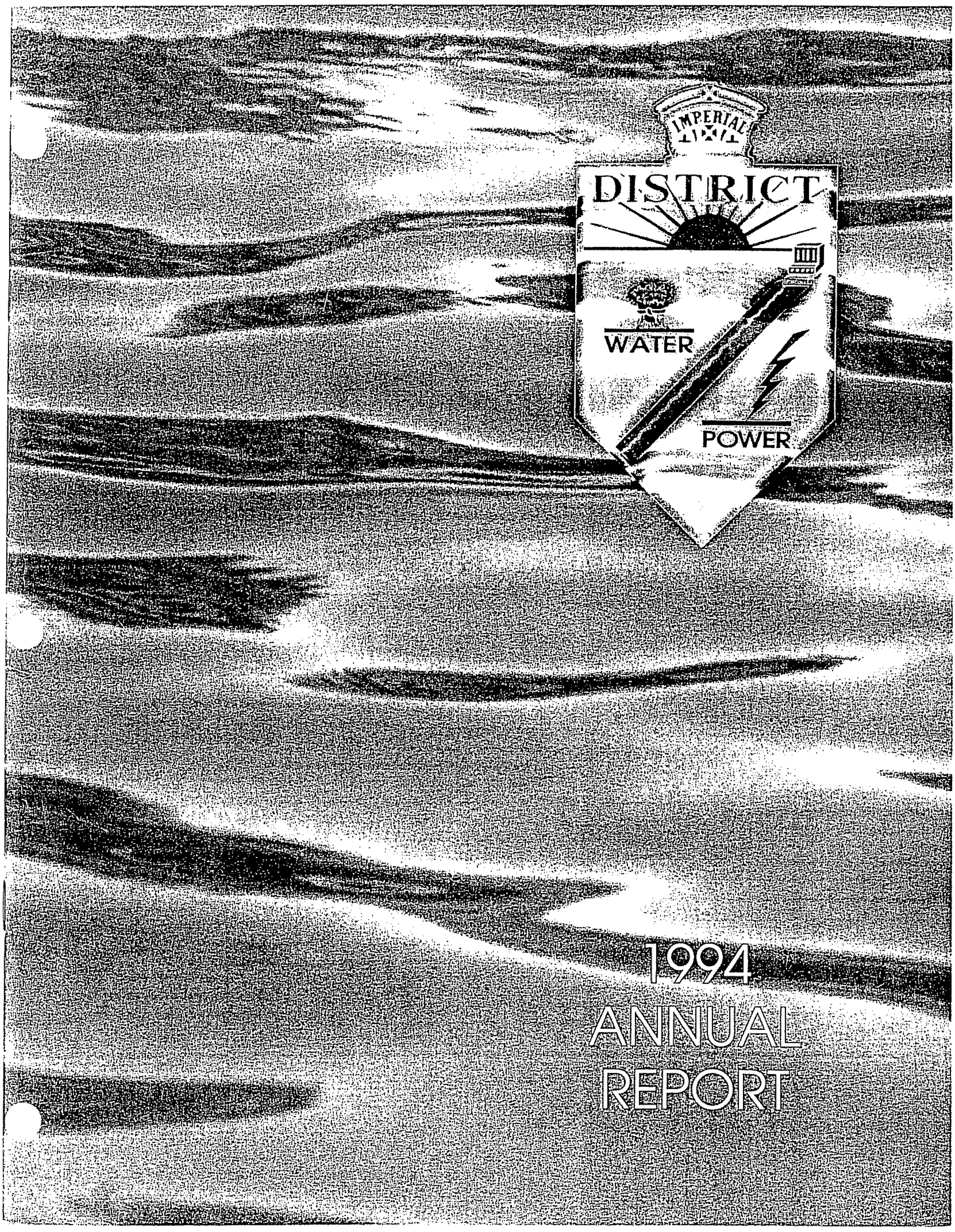
Imperial, California 92251
(619) 339-9426



1994 ANNUAL REPORT

CONTENTS

INTRODUCTION

A terse, nine-word message told the story: "Water turned through gate at 11 a.m. Everything all right."

Thus did Canadian-born engineer George Chaffey signal to his son Andrew in Los Angeles that water was on its way to Imperial Valley. The telegram came from a remote railway siding in the desert called Ogilby. The date was May 14, 1901.

Trickling, then gushing through Chaffey's headgate on the Colorado River, the first water coursed down an old stream bed, then through hastily constructed channels into canals dug for the settlers who anxiously awaited it to irrigate their newly-planted crops. In a few short years, the desert had been transformed into a fertile agricultural area.

Nine decades later, a group of Chaffey family members were escorted around the Valley by the Imperial Irrigation District, and marveled at what developments had followed their great-grandfather's engineering accomplishment:

On their visit in December, 1994, the visitors saw:

- *500,000 acres of land under cultivation in crops like artichokes and lettuce, carrots, wheat and alfalfa*
- *A network of 1675 miles of canals and laterals — most lined with concrete as a conservation measure — sprung from the original 40-mile diversion which first enabled Colorado River water to reach the Valley.*
- *Nine modern cities, rural dwellings and subdivisions that are home to some 300,000 residents*
- *A bustling trans-border economy, with more growth to be stimulated with the scheduled opening of a new California/Mexico Port of Entry — the largest such installation in the nation.*
- *State-of-the-art computers controlling distribution of water on its long journey from Colorado River dams to farmers' fields.*
- *Hydro-electric installations on the All-American Canal, a newly-repowered generating plant and interconnecting high-voltage power lines north, south, east and west, ensuring adequate power supplies for homes, businesses and industries.*

Chaffey's descendants had been aware of their illustrious forebear's achievement, but until their visit last year, had not seen for themselves what had developed afterwards. For within two years, the engineer had left the Valley, his challenge of bringing in water accomplished.

In the years that followed, Imperial Irrigation District was formed as a public water and power system, making these services available to residents.

What normally would be "profit" thus stays in the community in the form of the lowest utility rates in the region.

Today, the District faces different challenges:

- *Keeping abreast of the increasing demand for electricity*
- *Monitoring use of resources so they are used beneficially*
- *Working on environmental issues involving water quality, and the Salton Sea Resource*
- *Negotiating agreements with other agencies to ensure that the overtapped resources of the Colorado River are equitably shared.*

This Annual Report provides insight into the operation of the District during 1994 and plans to keep it abreast of current developments in the future. Were George Chaffey alive today, he would be proud of the men and women who make up the IID and the expertise they bring to today's challenges.

BOARD OF DIRECTORS

Ralph M. Menvielle
President
Division 5

Ralph M. Menvielle's farming • interests are Menvielle Hay Company and Quality Scales. A former president of Imperial Valley Farm Bureau, he serves on the State Agricultural Water Conservation Task Force.

William R. Condit
Vice President
Division 1

William R. Condit, 16 years IID board director, was a negotiator for the historic MWD/IID Water Transfer and Conservation Agreement. He brings many years of business experience and community involvement to his IID role.

Ted H. Lyon
Division 2

Civil Engineer Ted H. Lyon brings expertise gained in irrigation, drainage and construction projects in the U.S. and abroad to his role as an IID Director.

Lloyd Allen
Division 3

Director Lloyd Allen has a background in agriculture with his own northern farming operation. He has served as director of farm, civic and business organizations.

Donald H. Cox
Division 4

Donald H. Cox has seen six years of service on the IID board, serving as Chairman of the Salton Sea Authority and the California Farm Water Coalition. He owns a diversified farming business.

POWER DEPARTMENT

THE CHALLENGE

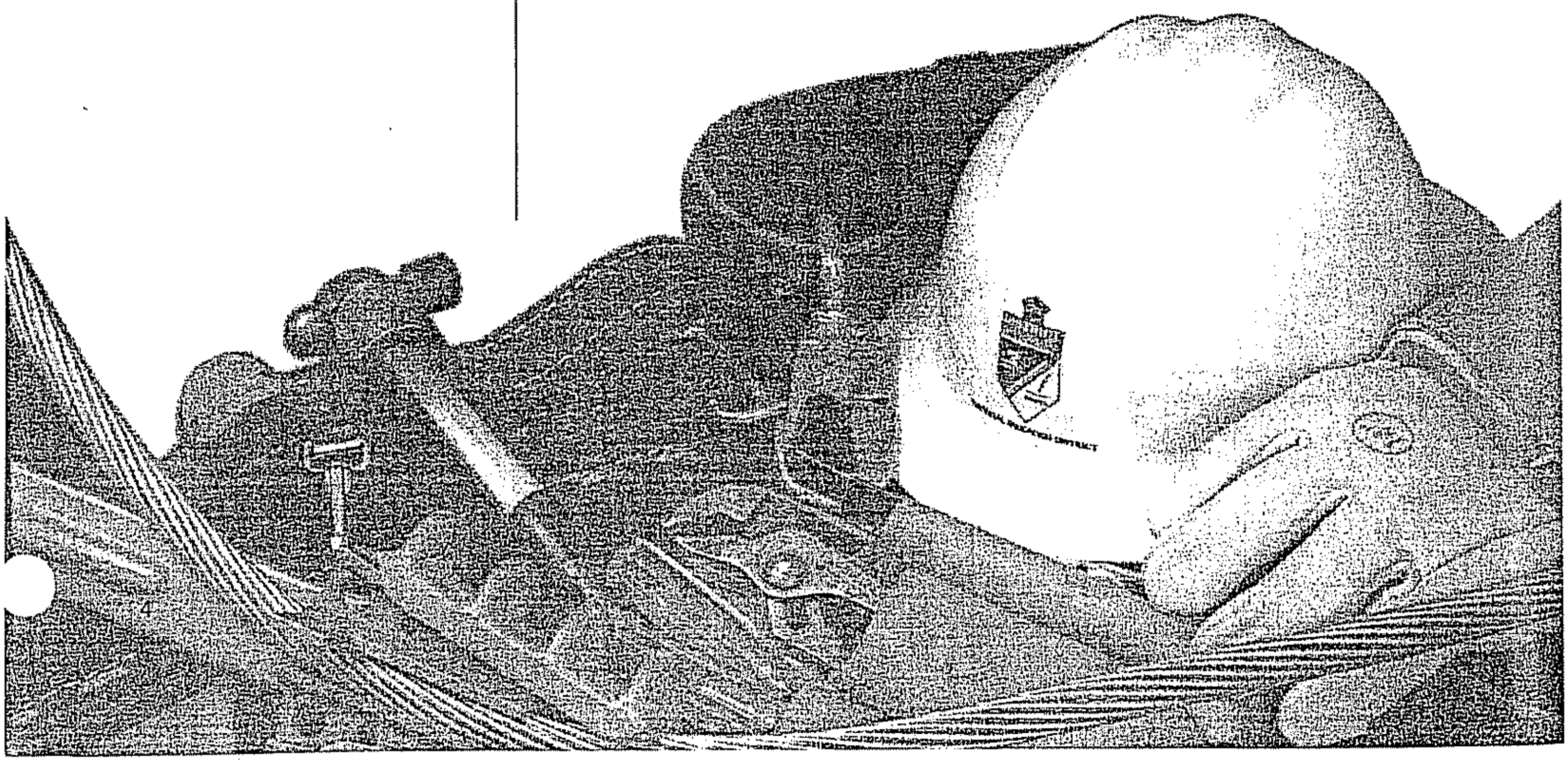
To continue to provide reliable electric service for the residents of Imperial and Coachella Valleys at the lowest cost.

The IID has succeeded in meeting this challenge during the last decade by supplying service at the lowest rates of any surrounding utilities.

The new challenges are to meet the demands of the two fastest growing counties in the state. Included in that challenge:

- *Seeking lowest priced sources of power on both the short- and long-term basis;*
- *Maintaining and upgrading its facilities for maximum efficiency and reliability;*
- *Integrated resource planning which includes a prudent mix of conservation, alternative energy and new generation;*
- *Continuing to institute cost-saving measures and improving efficiency wherever possible.*

During 1994, great strides were made toward these specific challenges. This report will touch on the projects and policies that address these challenges.



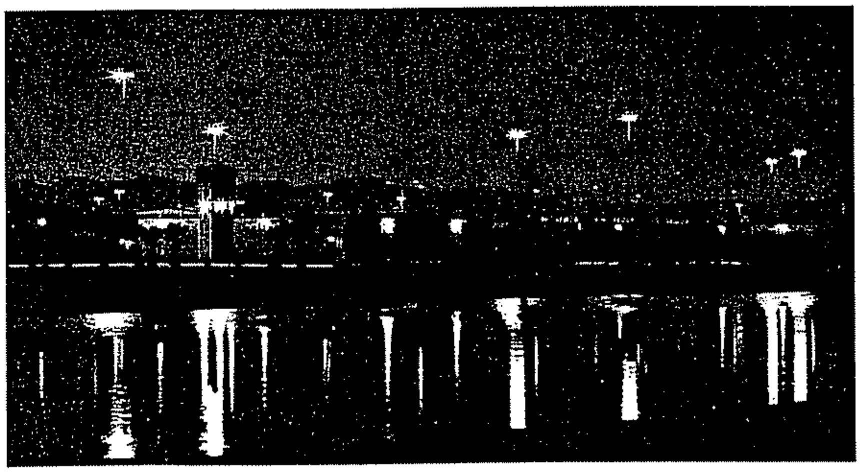
RELIABILITY AND SERVICE

Faced with an aging infrastructure and statistics which show the IID service area to be one of the fastest growing in the state, the Power Department is continuing the program to improve reliability for all customers.

The growth in the Coachella Valley service area of residential and commercial customers continue to strengthen the IID system. By construction of new transmission lines, substations and distribution to service this growth all customers benefit with newer and more reliable equipment and infrastructure.

Although growth in Imperial Valley is not as vigorous, the scheduled upgrades of IID facilities continue. Replacement of the 4000v lines in the older areas of downtown Brawley, Calexico and El Centro will enhance reliability for years to come. This upgrade to 12,000v makes available the power necessary for the more electrically intensive businesses locating in these areas.

The combination of a steady growth pattern and the related facilities, and planned upgrades in the aging parts of the system are part of the ongoing effort to improve reliability and service for the District's customers.



Air conditioned state prisons such as Calipatria will purchase electricity valued at up to $6 million annually from IID

FLEXIBILITY YIELDS THE LOWEST PRICE

Dispatch Department

Growth has not just affected the infrastructure, but has placed new importance on the mix of resources available to the District. The District has the ability to generate about 469 MW from its own local resources including hydroelectric plants and natural gas steam generation. About 288 MW of power is purchased from other sources under long-term contracts.

In a block building near the El Centro Generating Station, a group of "power dispatchers" work around the clock, seven days a week. In front of an array of computer terminals and wall charts, dispatchers call on the District's own power resources as well as those of distant power producers to meet the fluctuating demands of the residents, businesses and industry.

Wheeling and dealing like Wall Street floor traders, the dispatchers are in constant contact with generating facilities as distant as New Mexico and Washington to find power at the lowest possible costs. Local sources and sources under long-term contract can be idled if power can be obtained more cheaply elsewhere. Savings from the aggressive pursuit of lowest-cost power are passed on to customers in regular adjustments of the "energy cost" portion of their electric bills.

Diversification of resources, ranging from internal production at the El Centro Generating Station to power purchases on the spot market, have created the flexibility to meet the growing load on a daily basis with necessary reserves being available to meet heavy summer peaks.

INTEGRATED RESOURCE PLANNING

The District has varied its resource mix and promoted conservation for many years, and planning work continues to include evaluation of conservation (i.e., demand side programs) and alternative energy resources. In addition, the District plans are based on construction and operation of the most efficient and environmentally sensitive generation units, while minimizing the overall cost of electricity.

Options included in the District's resource evaluations are cogeneration facilities, geothermal resources, imported purchase options, traditional gas turbines and re-powering of units at the El Centro Generating Station and/or the Yucca Generating Plant in Yuma. These options range in size from 20 to 200 MW.

The District continues to refine the on-going energy conservation efforts. Heat pump and evaporative cooler rebates are still the center of the program coupled with residential audits and recommendations for the insulation and energy use. All these programs are promoted vigorously with advertising and a staff of three professionally trained energy efficiency experts.

EFFICIENCY RESULTS IN COST SAVINGS

Technology and innovation have improved the planning process resulting in better use of existing resources: material, equipment and personnel. Routine jobs such as upgrades of lower voltage lines in downtown El Centro, Brawley and Calexico benefit from precise computer scheduling, which allows the least inconvenience for customers during construction. In addition, computerized inventory allows for staging of materials and equipment which reduces or eliminates delays.

In the La Quinta area demand for underground service has been met with several innovations by District construction crews. Development of specialized tools and procedures have reduced the time required on jobs. In an area that perhaps has the greatest number of miles of underground service in the U.S., this means a significant savings for the customer and all rate payers.

The District is also pursuing permission from CalOSHA to work several procedures which will not only improve safety but greatly speed up work with high voltage lines. This is only one example of the influence of training and contact with other utilities in the Southwest and the rest of the country. During the past few years, the District has recruited engineers and construction personnel from many other utilities. These people bring to the District not just their years of experience, but a different way to do things.

The blend of growing technology and expertise of innovative experienced people has enabled the District to cut costs which results in holding the line on rates to customers/owners.

WATER DEPARTMENT

THE CHALLENGE

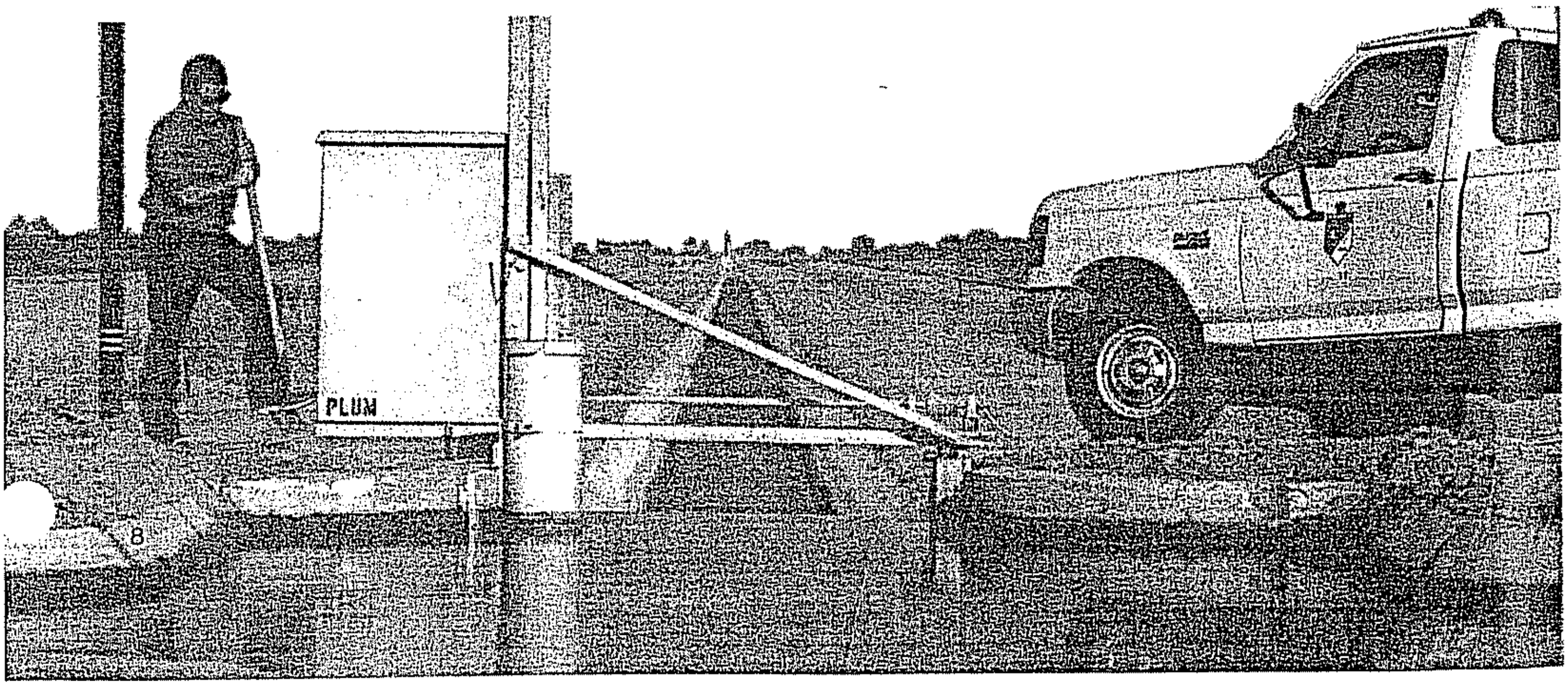
To continue to manage and deliver water while protecting water rights for water users in Imperial Valley at a cost that allows the economy to continue to flourish.

For 83 years the District has met many challenges to the delivery of water to farms and businesses in Imperial Valley. The District has not just relied on water rights to protect this precious resource for landowners in Imperial Valley, but has strengthened those rights by aggressively meeting any threat to them.

As demand for water throughout the West increases year by year, challenges become more frequent and more intense. The District in 1994 through innovation and continued programs met these challenges head on.

- *To continue to improve service and flexibility to water users at a reasonable cost.*
- *To continue aggressive water conservation programs while addressing environmental concerns.*
- *To address the rising level of Salton Sea without impacting agricultural production.*
- *To address growing concerns by state and federal agencies regarding quality of water in the Valley's drains.*

The following report summarizes progress in the above areas but is by no means an all-inclusive list of accomplishment by the Water Department in 1994, but gives examples of the ongoing commitment to protect this vital resource.



SERVICE AND FLEXIBILITY RESULT IN BETTER WATER MANAGEMENT

One thing learned early in water conservation by IID staff was that flexibility to the end user (the farmer) will yield cooperation and innovation. With that axiom in mind, the District offered new programs and expanded others to encourage better water management without having to add to the cost to water users.

The District worked in 1994 to standardize services in all areas of the Valley. There are many services offered by the District of which growers may not be aware. For example, in most cases, farmers can order extra water to finish a run. Water can also be shut off early. Automation and reservoirs make these services more readily available.

To gain the cooperation desired, greater communication between farmers and the District was stressed in 1994. To that end a new publication was instituted in 1994 specifically for water managers. *Dialogue* provides a forum for the District to allow water managers to be aware of changes in water delivery and drainage systems, and allow water managers to share practical water management experience with the District and fellow water managers.

Through greater communication, flexibility and cooperation, the District expects system-wide efficiency to increase over the years.

WATER CONSERVATION EFFORTS ARE BALANCED BY ENVIRONMENTAL CONCERNS

The IID/MWD Water Conservation Agreement, which began in 1990, set construction schedules and programs to be instituted over five years. At the end of 1994 projects have yielded just under 75,000 acre feet of verified conserved water.

During 1993 the Regional Water Quality Control Board expressed concerns regarding increased levels of selenium occurring in drains of the District. These concerns were that water conservation projects may be contributing to these increased selenium levels by reducing the dilution water in drains. The District goal to conserve water under the IID/MWD Agreement was threatened.

In an aggressive move the District launched a full blown Environmental Impact Report process to document affects of projects current and future In May of 1994 the report was completed with detailed information on impacts and mitigation measures necessary to continue some or all of the conservation programs. Once again the District has taken the lead by finding a way to balance the needs of the local environment with water needs of those of urban areas of the state. This detailed information now allows the District to proceed with those projects which not only save water but are cost and environmentally conscious.

THE SALTON SEA RESOURCE CHALLENGES

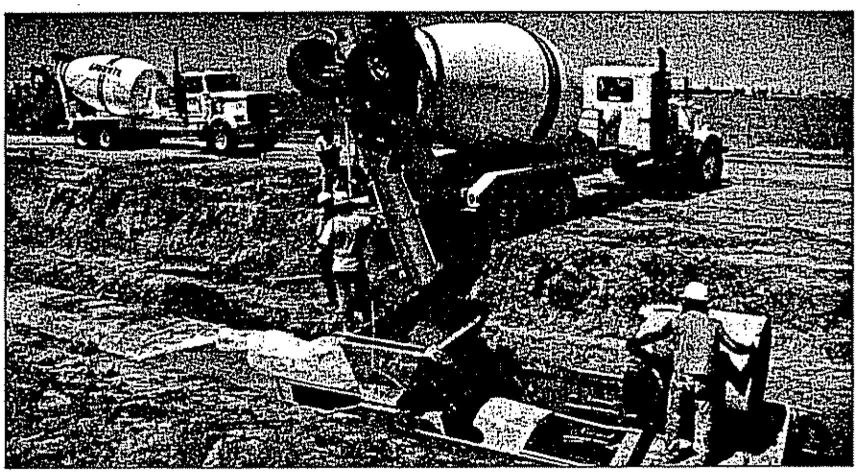
The District is not single-focused on the Salton Sea as the drainage reservoir for productive agriculture in Imperial Valley. IID has taken an active role to preserve this resource that has developed over the years. Many variables affect the sea including drain water quality, Mexican inflows, crop rotations and weather.

During 1993, heavy rains in the winter months raised the level of the sea almost a foot above the previous year, which threatened some of the fields and structures around the sea. In 1994 the IID Board of Directors unanimously approved an emergency program to alleviate potential flooding around the sea. The three-year program will raise the elevation of Salton Sea dikes and drain banks as well as pump some drains.

To fund the estimated $6.8 million program, the Board also approved a $.50 per acre-foot increase in the water rate to begin in 1995. This increase is earmarked for the Salton Sea emergency program, which will be reviewed at the end of the third year.

Aside from flooding issues the District has also been an active participant in the Salton Sea Authority. The authority was formed by the District, Imperial County, Riverside County and Coachella Valley Water District to seek solutions to the problems of increased salinity of the sea and stabilizing levels. The authority's first action was to host a symposium in January of 1994. The first Salton Sea Symposium gathered many experts in various aspects that affect the sea. Historical, biological, recreational and commercial impacts and uses were addressed by the presenters and the audience. Over 200 participants gave high marks to the symposium.

For the Salton Sea, 1994 was a dynamic year. Renewed efforts were focused through the emergency program to control the flooding threat and to look for the best management of the Salton Sea resource area.



Canal undergrounding operation in process

REGULATORS FOCUS ON DISTRICT DRAINS

A combination of factors has increased attention on drains in Imperial Valley and the quality of water those drains deliver to Salton Sea. Selenium studies are being conducted by the U.S. Bureau of Reclamation (USBR) and U.S. Fish and Wildlife Service. The state's Regional Water Quality Control Board (RWQCB) has been monitoring the contents of drain water to establish baseline data on chemical concentrations in drains.

Selenium studies for the USBR by Jim Setmire, research specialist in selenium, have identified some drains with high concentrations of the element. These levels, while above acceptable levels set by the Environmental Protection Agency (EPA), are not near levels which have caused harm to wild fowl in other areas. And levels found in Salton Sea water are well below those EPA thresholds. The District is cooperating fully with these studies to use this information to develop the most cost effective plan to best manage drain water.

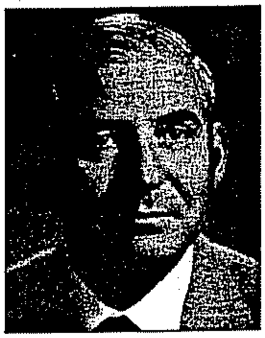
During 1994 the District worked closely with the RWQCB to find a workable plan to sample over 1,000 drain sites. This sampling has confirmed the theory that pesticides and herbicides are attached to small silt particles that are suspended in drain water. Because the Valley's drainage area is a closed system, this silt accumulates in New and Alamo Rivers and Salton Sea. The RWQCB has retained researchers from the University of California at Davis to continue detailed sampling and analysis at 60 specific sites to develop more data regarding the relationship of silt particles, attached chemicals and how those chemicals concentrate.

As a proactive step to develop this data, the District has implemented a Drain Water Quality Improvement Program. District staff have begun to monitor eight sites for data and develop a list of on-farm Best Management Practices (BMPs) to reduce sediment loads leaving fields. Two of the BMPs will be selected as pilot programs. The engineering firm of Jones and Stokes, with input from farmers and District staff, will develop the programs.

The vast enclosed drainage area in Imperial Valley is an ideal laboratory for these studies and the District is once again at the forefront of research into drainage issues. The proactive approach will hopefully yield cost effective ways to deal with these drainage issues and also applicable solutions for other irrigation systems.

PASSING THE TORCH

Two top executives of the IID relinquished their posts during 1994 and passed the torch of leadership to their successors.



Charles Shreves

Charles Shreves' ten-year tenure as General Manager of the IID was highlighted by the historic agreement on water conservation with the Metropolitan Water District. The agreement called for the implementation of water conservation projects and programs to conserve 100,000 acre-feet of water annually. Funds totaling $233 million are being provided by the MWD, which has the right to use the conserved water.

The agreement has been hailed as a "landmark" in inter-district water agreements, traditionally a thorny area of dispute in California. The state is beset alternately by flood and drought and much of Southern California's coastal urban population is dependent for water from the overburdened Colorado River.

Shreves served as general manager since 1984. A graduate of both the Army and Naval War Colleges and a registered engineer, he served for 30 years with the U.S. Army Corps of Engineers before joining the IID.

Aware of the increasing demand for electric power in the area, Mr. Shreves directed the completion of two hydro-electric power plants on the All-American Canal. Also, the acquisition of the Yucca Generating Station in Arizona and a part ownership share of a New Mexico power station.

During his tenure, new power operations centers were constructed in both Coachella and El Centro, and the District became the first California utility in the many years to construct new fossil fuel generating capacity when the repowering of Unit 2 of the El Centro Generating Station was implemented.

Expertise in water supply and management enabled Mr. Shreves to serve the District ably as representative on the National Water Resource Association, the Association of California Water Agencies, the Colorado River Board of California and other agencies.

During a turbulent decade for water agencies, Mr. Shreves provided leadership in:

- *Directing the preparation of IID's Water Conservation Plan–first such in the state;*
- *Coordinating negotiations which resulted in the historic Water Conservation and Transfer Agreement with the MWD of Los Angeles;*
- *Working with the California congressional delegation to pass legislation enabling construction of a 23-mile, concrete-lined section of the All-American Canal.*

Henry "Hank" Legaspi retired in mid-year after 41 years service with the District, 14 of them as Power Department Manager.

Henry Legaspi

They were eventful years. The last ten coincided with Shreves tenure as General Manager. Significant milestones were:

- *Purchase of an ownership portion of the Palo Verde Nuclear Generating Station*
- *Purchase of an ownership portion of the Palo Verde / San Diego 500-kv power line*
- *Implementation of automatic control of power generation*
- *Opening of a microwave-linked power operations center*
- *Construction of three hydroelectric power plants*
- *Repowering of #2 unit of the El Centro Steam Generating Station for more efficient power production*
- *Construction of two major 230-kv power transmission lines*

One of the latter lines was constructed to move geothermal power from the Salton Sea and East Mesa areas north to customers of Southern California Edison. Legaspi noted that as a youngster he had played around the boiling mud pots of the Niland area – now covered by the Salton Sea – and lived to see the underground power which caused them harnessed to produce electricity.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Imperial Irrigation District:

We have audited the accompanying combined balance sheets of Imperial Irrigation District (District) as of December 31, 1994 and 1993 and the related combined statements of income, changes in District equity and cash flows for the years then ended. These combined financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As is more fully described in note 2 to the combined financial statements, the aggregate market value of the District's cash and investments was $7,702,227 and $731,383 less than amortized cost at December 31, 1994 and 1993, respectively.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Imperial Irrigation District as of December 31, 1994 and 1993 and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

Calderon Jaham & Osborn

March 13, 1995

IMPERIAL IRRIGATION DISTRICT
Combined Balance Sheets
December 31, 1994 and 1993

Assets	1994 Water Department	1994 Power Department	1994 Combined	1993 Water Department	1993 Power Department	1993 Combined
Current assets:						
Cash and investments (note 2)	$ —	1,497	1,497	—	—	—
Receivables:						
Trade	4,666,103	15,468,582	20,134,685	4,748,864	13,617,377	18,366,241
Interest	481,112	1,652,739	2,133,851	150,856	208,325	359,181
Other	188,392	3,413,107	3,601,499	299,125	3,254,079	3,553,204
	5,335,607	20,534,428	25,870,035	5,198,845	17,079,781	22,278,626
Less allowance for doubtful accounts	(160,941)	(2,668,186)	(2,829,127)	(129,387)	(2,301,232)	(2,430,619)
Net receivables	5,174,666	17,866,242	23,040,908	5,069,458	14,778,549	19,848,007
Inventories:						
Fuel oil	—	2,958,339	2,958,339	—	3,004,131	3,004,131
Materials and supplies	842,320	9,981,370	10,823,690	648,740	9,313,732	9,962,472
Total inventories	842,320	12,939,709	13,782,029	648,740	12,317,863	12,966,603
Prepaid expenses and deferred charges	75,937	2,650,401	2,726,338	49,296	46,648	95,944
Total current assets	6,092,923	33,457,849	39,550,772	5,767,494	27,143,060	32,910,554
Cash and investments, restricted as to use and allocated for (note 2):						
Debt service	566,914	24,058,706	24,625,620	317,203	19,087,754	19,404,957
Construction	4,388,750	54,534,509	58,923,259	6,359,664	754,335	7,113,999
Self-insurance	7,259,072	1,119,072	8,378,144	6,008,500	—	6,008,500
Employee-deferred compensation (note 5)	6,929,501	6,929,501	13,859,002	6,413,301	6,413,301	12,826,602
Other	21,895,578	6,335,541	28,231,119	18,154,722	2,322,368	20,477,090
	41,039,815	92,977,329	134,017,144	37,253,390	28,577,758	65,831,148
Utility plant, at cost (note 4):						
Plant in service	263,298,622	686,919,350	950,217,972	249,374,622	659,483,359	908,857,981
Less accumulated depreciation	(52,307,976)	(196,165,513)	(248,473,489)	(47,764,897)	(179,136,318)	(226,901,215)
	210,990,646	490,753,837	701,744,483	201,609,725	480,347,041	681,956,766
Construction in process	518,432	1,611,911	2,130,343	1,129,274	2,999,444	4,128,718
	211,509,078	492,365,748	703,874,826	202,738,999	483,346,485	686,085,484
	$258,641,816	618,800,926	877,442,742	245,759,883	539,067,303	784,827,186

(Continued)

IMPERIAL IRRIGATION DISTRICT
Combined Balance Sheets
December 31, 1994 and 1993

Liabilities and District Equity	1994 Water Department	1994 Power Department	1994 Combined	1993 Water Department	1993 Power Department	1993 Combined
Current liabilities:						
Current maturities of long-term debt (note 6)	$ 239,780	10,715,130	10,954,910	904,345	10,114,228	11,018,573
Accounts payable	1,649,150	11,969,488	13,618,638	2,169,345	12,935,591	15,104,936
Accrued interest payable	18,308	2,019,966	2,038,274	20,038	1,394,322	1,414,360
Accrued compensation and payroll taxes	1,240,910	1,240,910	2,481,820	830,859	830,859	1,661,718
Accrued vacation and sick leave	1,684,288	1,805,690	3,489,978	1,442,954	1,786,232	3,229,186
Deferred revenues	2,512,000	—	2,512,000	2,483,942	—	2,483,942
Total current liabilities	7,344,436	27,751,184	35,095,620	7,851,483	27,061,232	34,912,715
Liabilities payable from restricted assets:						
Other accrued expenses, noncurrent portion (note 12)	15,946,000	2,221,000	18,167,000	5,987,174	2,220,175	8,207,349
Employee-deferred compensation (note 5)	6,929,501	6,929,501	13,859,002	6,413,301	6,413,301	12,826,602
Advances and deposits from customers	413,220	1,515,506	1,928,726	722,330	1,546,884	2,269,214
Refundable to customers	—	4,257,806	4,257,806	—	1,751,429	1,751,429
	23,288,721	14,923,813	38,212,534	13,122,805	11,931,789	25,054,594
Long-term debt (note 6):						
Certificates of participation (note 7)	—	167,118,028	167,118,028	—	117,121,555	117,121,555
Bonds payable (note 9)	1,880,543	—	1,880,543	1,948,343	—	1,948,343
Capital leases (note 10)	252,242	374,816	627,058	422,508	504,214	926,722
	2,132,785	167,492,844	169,625,629	2,370,851	117,625,769	119,996,620
Deferred credits and other liabilities:						
Advances for construction	—	10,035	10,035	—	18,019	18,019
Accrued vacation and sick leave, noncurrent portion	728,489	776,509	1,504,998	451,052	595,531	1,046,583
	728,489	786,544	1,515,033	451,052	613,550	1,064,602
Total liabilities	33,494,431	210,954,385	244,448,816	23,796,191	157,232,340	181,028,531
District equity:						
Contributions in aid of construction	92,223,021	39,889,212	132,112,233	86,856,054	46,822,103	133,678,157
Retained earnings	132,924,364	367,957,329	500,881,693	135,107,638	335,012,860	470,120,498
Total District equity	225,147,385	407,846,541	632,993,926	221,963,692	381,834,963	603,798,655
	$258,641,816	618,800,926	877,442,742	245,759,883	539,067,303	784,827,186

See accompanying notes to combined financial statements.

IMPERIAL IRRIGATION DISTRICT
Combined Statements of Income
Years ended December 31, 1994 and 1993

	1994			1993		
	Water Department	Power Department	Combined	Water Department	Power Department	Combined
Operating revenues:						
Power sales	$ —	190,213,525	190,213,525	—	173,301,025	173,301,025
Water sales	31,995,403	—	31,995,403	29,058,526	—	29,058,526
Water availability charge	1,957,545	—	1,957,545	1,979,433	—	1,979,433
Interdepartmental charges (note 3):						
Use of All-American Canal	3,229,000	(3,229,000)	—	1,185,399	(1,185,399)	—
Power sales	(579,538)	579,538	—	(509,175)	509,175	—
Heber-Mirage transmission credits (note 12)	—	8,966,453	8,966,453	—	8,624,360	8,624,360
Other	—	1,831,025	1,831,025	—	2,171,983	2,171,983
	36,602,410	198,361,541	234,963,951	31,714,183	183,421,144	215,135,327
Operating expenses:						
Cost of fuel	—	12,153,314	12,153,314	—	20,328,324	20,328,324
Purchased power	—	94,262,777	94,262,777	—	81,372,050	81,372,050
Other power expenses	—	20,289,142	20,289,142	—	22,445,563	22,445,563
Operation and maintenance of All-American Canal	1,507,932	—	1,507,932	1,579,291	—	1,579,291
Operation and maintenance of irrigation system and dams	18,467,402	—	18,467,402	16,330,751	—	16,330,751
General and administration expense	22,945,014	16,705,549	39,650,563	10,956,907	15,224,439	26,181,346
Provision for depreciation (note 4)	5,025,655	17,947,624	22,973,279	4,494,057	16,701,545	21,195,602
	47,946,003	161,358,406	209,304,409	33,361,006	156,071,921	189,432,927
Net operating income (loss)	(11,343,593)	37,003,135	25,659,542	(1,646,823)	27,349,223	25,702,400
Nonoperating revenues (expenses):						
Interest income	1,704,632	4,170,760	5,875,392	1,373,019	1,994,314	3,367,333
Interest expense	(38,540)	(10,285,262)	(10,323,802)	(80,344)	(7,052,565)	(7,132,909)
Other income	4,306,545	458,989	4,765,534	5,030,824	1,278,699	6,309,523
Other expenses	(845)	(2,837)	(3,682)	(822)	(851)	(1,673)
	5,971,792	(5,658,350)	313,442	6,322,677	(3,780,403)	2,542,274
Net income (loss) before extraordinary item	(5,371,801)	31,344,785	25,972,984	4,675,854	23,568,820	28,244,674
Extraordinary item – accounting loss on defeasance of certificates of participation (note 7)	—	—	—	—	(5,132,205)	(5,132,205)
Net income (loss)	$ (5,371,801)	31,344,785	25,972,984	4,675,854	18,436,615	23,112,469

See accompanying notes to combined financial statements.

IMPERIAL IRRIGATION DISTRICT
Combined Statements of Changes in District Equity
Years ended December 31, 1994 and 1993

	Water Department	Power Department	Combined
Retained earnings:			
Balance at January 1, 1994	$135,107,638	335,012,860	470,120,498
Net income (loss)	(5,371,801)	31,344,785	25,972,984
Add back depreciation of fixed assets acquired through contributions (note 4)	3,188,527	1,599,684	4,788,211
Balance at December 31, 1994	132,924,364	367,957,329	500,881,693
Contributions in aid of construction:			
Balance at January 1, 1994	86,856,054	46,822,103	133,678,157
Contributions received	8,555,494	3,633,246	12,188,740
Heber-Mirage transmission credits	—	(8,966,453)	(8,966,453)
Less depreciation of fixed assets acquired through contributions (note 4)	(3,188,527)	(1,599,684)	(4,788,211)
Balance at December 31, 1994	92,223,021	39,889,212	132,112,233
Total District equity at December 31, 1994	$225,147,385	407,846,541	632,993,926
Retained earnings:			
Balance at January 1, 1993	$127,497,769	314,816,565	442,314,334
Net income	4,675,854	18,436,615	23,112,469
Add back depreciation of fixed assets acquired through contributions (note 4)	2,934,015	1,759,680	4,693,695
Balance at December 31, 1993	135,107,638	335,012,860	470,120,498
Contributions in aid of construction:			
Balance at January 1, 1993	75,885,194	54,403,468	130,288,662
Contributions received	13,904,875	2,802,675	16,707,550
Heber-Mirage transmission credits	—	(8,624,360)	(8,624,360)
Less depreciation of fixed assets acquired through contributions (note 4)	(2,934,015)	(1,759,680)	(4,693,695)
Balance at December 31, 1993	86,856,054	46,822,103	133,678,157
Total District equity at December 31, 1993	$221,963,692	381,834,963	603,798,655

See accompanying notes to combined financial statements.

IMPERIAL IRRIGATION DISTRICT
Combined Statements of Cash Flows
Years ended December 31, 1994 and 1993

	1994			1993		
	Water Department	Power Department	Combined	Water Department	Power Department	Combined
Cash flows from operating activities:						
Operating income (loss)	$(11,343,593)	37,003,135	25,659,542	(1,646,823)	27,349,223	25,702,400
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation and amortization (note 4)	6,104,889	19,056,129	25,161,018	5,778,361	17,663,299	23,441,660
(Gain) loss on disposal of property	338,732	165,237	503,969	436,653	(465,766)	(29,113)
Heber-Mirage transmission credits	—	(8,966,453)	(8,966,453)	—	(8,624,360)	(8,624,360)
(Increase) decrease in assets and increase (decrease) in liabilities:						
Trade accounts receivable	82,761	(1,851,205)	(1,768,444)	(336,135)	378,159	42,024
Other receivables	110,733	(159,028)	(48,295)	270,067	(1,312,025)	(1,041,958)
Allowance for uncollectible accounts, net	31,554	366,954	398,508	(76,865)	69,841	(7,024)
Inventories	(193,580)	(621,846)	(815,426)	145,360	(651,523)	(506,163)
Prepaid expenses and deferred charges	(26,641)	(1,556,947)	(1,583,588)	28,264	28,900	57,164
Accounts payable	(520,195)	(966,103)	(1,486,298)	(1,074,226)	387,663	(686,563)
Accrued compensation and payroll taxes	410,051	410,051	820,102	367,125	367,125	734,250
Accrued vacation and sick leave	518,771	200,436	719,207	(711,027)	(206,039)	(917,066)
Deferred revenues	28,058	—	28,058	22,127	—	22,127
Other accrued expenses	9,958,826	825	9,959,651	(1,000,826)	(1,000,825)	(2,001,651)
Employee deferred compensation	516,200	516,200	1,032,400	828,028	828,028	1,656,056
Refundable to customers	—	2,506,377	2,506,377	—	(7,342,550)	(7,342,550)
Net cash provided by operating activities	6,016,566	46,103,762	52,120,328	3,030,083	27,469,150	30,499,233
Cash flows from noncapital financing activities–other nonoperating income	4,305,699	456,152	4,761,851	5,030,002	1,277,848	6,307,850
Cash flows from investing activities:						
Interest received	1,374,376	2,726,346	4,100,722	1,334,330	3,276,207	4,610,537
(Purchases) sales of investments, net	(8,440,414)	(53,723,266)	(62,163,680)	6,895,863	60,133,610	67,029,473
Net cash provided by (used in) investing activities	(7,066,038)	(50,996,920)	(58,062,958)	8,230,193	63,409,817	71,640,010

(Continued)

IMPERIAL IRRIGATION DISTRICT
Combined Statements of Cash Flows, Continued

	1994			1993		
	Water Department	Power Department	Combined	Water Department	Power Department	Combined
Cash flows from capital financing activities:						
Proceeds from issuance of long-term debt (note 7)	$ —	59,566,904	59,566,904	—	43,220,366	43,220,366
Transfers to defeased debt escrow trustee (note 7)	—	—	—	—	(44,417,427)	(44,417,427)
Principal payments of long-term debt (note 6)	(904,678)	(10,214,561)	(11,119,239)	(1,255,230)	(8,471,639)	(9,726,869)
Interest paid on long-term debt, excluding interest capitalized of $1,417,600 in 1994 and $2,083,100 in 1993	(40,270)	(9,572,799)	(9,613,069)	(81,134)	(6,712,276)	(6,793,410)
Capital expenditures	(15,233,445)	(28,288,397)	(43,521,842)	(22,538,608)	(89,106,375)	(111,644,983)
Proceeds from sale of property	21,793	21,793	43,586	855,453	2,212,665	3,068,118
Increase (decrease) in advances and deposits	(309,110)	(31,378)	(340,488)	(326,467)	193,957	(132,510)
Additions to contributions in aid of construction	8,555,494	3,633,246	12,188,740	13,904,875	2,802,675	16,707,550
Net cash provided by (used in) capital financing activities	(7,910,216)	15,114,808	7,204,592	(9,441,111)	(100,278,054)	(109,719,165)
Net increase (decrease) in cash and cash equivalents	(4,653,989)	10,677,802	6,023,813	6,849,167	(8,121,239)	(1,272,072)
Cash and cash equivalents at beginning of year	14,162,406	10,864,242	25,026,648	7,313,239	18,985,481	26,298,720
Cash and cash equivalents at end of year	$ 9,508,417	21,542,044	31,050,461	14,162,406	10,864,242	25,026,648
Cash and cash equivalents	$ 9,508,417	21,542,044	31,050,461	14,162,406	10,864,242	25,026,648
Investments	31,531,398	71,436,782	102,968,180	23,090,984	17,713,516	40,804,500
Total cash and investments	$ 41,039,815	92,978,826	134,018,641	37,253,390	28,577,758	65,831,148
Schedule of noncash investing and financing activities:						
Capital expenditures	$ —	—	—	(219,755)	(536,706)	(756,461)
Issuance of capital leases	—	—	—	219,755	536,706	756,461
Issuance of long-term debt	—	1,046,806	1,046,806	—	—	—
Additions to deferred charges – issuance costs	—	(1,046,806)	(1,046,806)	—	—	—
Interest expense	—	(576,392)	(576,392)	—	(568,729)	(568,729)
Accretion on capital appreciation certificates of 1990 Certificates of Participation	—	451,111	451,111	—	420,983	420,983
Amortization of original issue discount:						
1990 Certificates of Participation	—	71,272	71,272	—	124,120	124,120
1991 Certificates of Participation	—	14,646	14,646	—	14,546	14,546
1993 Certificates of Participation	—	30,267	30,267	—	9,080	9,080
1994 Certificates of Participation	—	9,096	9,096	—	—	—
Net effect of noncash investing and financing activities	$ —	—	—	—	—	—

See accompanying notes to combined financial statements.

IMPERIAL IRRIGATION DISTRICT

Notes to Combined Financial Statements

December 31, 1994 and 1993

NOTE 1 Summary of Significant Accounting Policies

Reporting Entity

The Imperial Irrigation District (the District) is a public entity organized in 1911 under the California Irrigation District Law (codified at Division 11 of the California Water Code) The District has the powers under the law to, among other things, provide irrigation and electric service within its geographic boundaries In connection therewith, the District has the powers of eminent domain to contract, to construct works, to fix rates and charges for commodities or services furnished and to incur indebtedness

The District is governed by a five-member Board of Directors elected by the citizens residing within the District's boundaries

Basis of Presentation

The account classification structures used by the District conform to generally accepted accounting principles consistent with enterprise fund accounting The accounting records of the District are maintained on the accrual basis of accounting Under this method, revenues are recognized when earned, regardless of when received, and expenses are recognized when incurred, regardless of when paid The effects of interdepartmental transactions have not been eliminated at the individual department level, as the Board of Directors of the District believes that the operating results of such departments should remain separated to facilitate management review and appropriate rate setting Such separation is also required for evidence of compliance with debt agreements relating to the District's outstanding Certificates of Participation

Separate accounting records are maintained for the Water and Power Departments of the District The account classifications used by the District for accounting and financial reporting purposes are comparable to those used by other irrigation districts and electric utilities The account classifications used by the Power Department are specified by the Uniform System of Accounts as prescribed by the U.S. Federal Energy Regulatory Commission The account classifications of the Water Department were adopted to facilitate computations required under a provision of the All-American Canal contract (see note 8)

Utility Plant

Utility plant is stated at cost and includes labor, materials, interest capitalized during the construction period, purchased services and certain overhead items Water and electric plant retirements are removed from the accounts at cost, together with the related accumulated depreciation Any gains or losses resulting from retirements are recorded as non-operating revenues or expenses

The District has an undivided interest in certain power generation stations and transmission systems that are jointly owned with several utilities The operating agreement under which the facilities were constructed required that each participant provide its own construction financing The District's proportionate share of construction and improvement costs for such jointly owned facilities is included in the appropriate category of utility plant The District incurs certain minimum operating costs on jointly owned facilities, whether or not it is able to take delivery of its proportionate share of energy generated Such expenses incurred are included in the accompanying combined statements of income

Depreciation

Buildings, vehicles, equipment, drainage structures, canal linings and canal structures owned by the Water Department and Power Department are depreciated on a straight-line basis over their estimated useful lives Expenditures which materially increase utility plant lives are capitalized, while costs of maintenance and repairs are charged to expense as incurred Depreciation on fixed assets acquired through contributions in aid of construction is deducted from such contributions with a corresponding increase to retained earnings

Inventories

Inventories consisting of fuel oil, materials and supplies are recorded at cost on a first-in, first-out, weighted-average basis

Revenues

The principal customers of the Water Department are farm operators and cities, which in turn resell such water to their customers The Water Department's customers are billed at the end of each month for sales made during the month In addition, each landowner pays an annual water availability fee that is based upon acreage held within the District. Customers of the Power Department are billed on a cyclical basis Water and power revenues are recorded when billed, except for the water availability fee which is billed in December but recorded as revenue ratably throughout the year; accordingly, such billings are considered to be deferred revenues Unbilled water and electric service revenues are not considered significant

Refundable to Customers

Fuel costs billed to power customers in excess of actual fuel costs incurred are considered refundable to the customer. Such costs are refunded through subsequent reductions of fuel costs billed.

Restricted Assets

Restricted funds represent allocations of cash balances pursuant to provisions of the All-American Canal contract, the covenants of the Certificates of Participation, deposits of employee-deferred compensation and for other purposes specified by the Board of Directors

Cash and Investments

The District invests its idle cash on a daily basis Certain of these investments are in bank certificates of deposit. Other investments consist primarily of Federally backed securities, medium-term corporate notes, mutual fund investments and other investments commonly referred to as "derivatives." The District also has an employee-deferred compensation plan under which investments of varying types are made on behalf of the participants

Such investments are stated at amortized cost, except for the deferred compensation plan assets, which are stated at market value

The District considers all cash and cash deposits, investments in the State Treasurer's Local Agency Investment Fund, investments in mutual and similar funds and other investments with initial maturities of less than 90 days to be cash and cash equivalents for purposes of the accompanying combined statements of cash flows

Reclassifications

Certain amounts reported in the 1993 combined financial statements have been reclassified to correspond to the 1994 presentation

NOTE 2 Cash and Investments

The District maintains a general cash and investment pool for the purpose of maximizing investment returns for all funds except those required to be held by outside fiscal agents and funds in its employee-deferred compensation plan The District's cash and investments portfolio has aggregate net unrealized losses of $7,702,227 and $731, 383 at December 31, 1994 and 1993, respectively

Although there is a significant increase in the unrealized loss on its investments, the District believes it has the ability and intent to hold such securities until their respective maturity dates, thus reducing the risk that such unrealized losses will become realized at some future date

The District's cash deposits at December 31, 1994 and 1993 were either entirely insured by appropriate Federal depository insurance or collateralized with collateral held by the pledging financial institution's trust department or agent in the District's name in accordance with provisions of the California Government Code The carrying amount and bank balance of the District's deposits at December 31, 1994 and 1993 are as follows:

	1994		1993	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Insured	$ 252,059	519,198	5,793,506	7,049,602
Collateralized	4,653,955	6,607,274	1,406,540	1,661,038
Total cash deposits	$4,906,014	7,126,472	7,200,046	8,710,640

The District's investment policies allow for investments in obligations of U.S Treasury and other Federal agency securities, State Treasury and other state and local governmental agency securities, bankers' acceptances, commercial paper, mortgage securities and the State Treasurer's Local Agency Investment Fund, as well as certain investments commonly referred to as "derivatives."

Included in the District's investments at December 31, 1994 and 1993 are derivatives Derivatives are generally defined as contracts whose value depends on, or derives from, the value of an underlying asset, reference rate or index The derivative investments held by the District during 1994 and 1993 consisted of "inverse-floaters," which were originally purchased to improve the District's overall return on investment These derivative investments consist of Federal Home Loan Mortgage Corp., Federal Farm Credit Bank and Federal Home Loan Bank Notes and are included in U.S Government agency securities

The District's inverse floaters, which are financial instruments whose interest rates vary inversely with a particular published index or rate, consisted of two types of inverse floaters: single and dual indexed. The single indexed floaters total $28,659,996 and $17,702,719 at December 31, 1994 and 1993, respectively, and vary indirectly with a multiple of either the one- or six-month London Interbank Offering Rate (LIBOR) which reset monthly or semiannually, respectively The dual indexed floaters, which also vary directly with another index, total $3,934,000 and $2,000,000 at December 31, 1994 and 1993, respectively. Because of the nature of these inverse floaters, as general interest rate levels increase, the pay rate on the investments decrease, resulting in a decline in interest income as well as a decline in market value. The weighted average interest rate on the inverse floaters was 4 66% and 6.47%, and the unrealized loss was $4,442,280 and $589,749 (57 7% and 70.1% of total portfolio unrealized losses) at December 31, 1994 and 1993, respectively.

The District's investments at December 31, 1994 and 1993 are categorized by the level of custodial risk assumed by the District. The risk categories are defined as follows:

Category 1: includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name.

Category 2: includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name

Category 3: includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the District's name.

Not Required to be Categorized: investments in pools managed by other governments or investment services in which the District owns a share of the total pool, but does not own specific underlying investments within such pool. This includes investments in the State Treasurer's Local Agency Investment Fund (LAIF) and mutual funds. The District does not have detail of the portfolios of LAIF or the mutual funds at December 31, 1994 and 1993.

The District's investments at December 31, 1994 and 1993 are categorized by level of custodial risk in the following table:

	1994		1993	
	Carrying Amount	Market Value/ Contractual Amount	Carrying Amount	Market Value/ Contractual Amount
Risk category 1:				
U.S Government securities	$ 3,330,981	3,288,312	3,326,405	3,311,201
U.S. Government agency securities	42,687,138	37,662,169	31,796,328	31,320,069
Medium-term corporate notes	8,559,350	8,077,902	—	—
Negotiable certificates of deposit	100,000	100,000	100,000	100,000
Total risk category 1	54,677,469	49,128,383	35,222,733	34,731,270
Risk category 2:				
U.S. Government agency securities	37,679,444	36,700,613	—	—
Medium-term corporate notes	6,978,100	6,848,450	5,578,670	5,538,750
Total risk category 2	44,657,544	43,549,063	5,578,670	5,538,750
Risk category 3:				
U S Government agency securities	$ 3,626,054	2,996,496	—	—
Negotiable certificates of deposit	7,112	7,112	3,097	3,097
Total risk category 3	3,633,166	2,973,608	3,097	3,097
Investments not required to be categorized:				
State Treasurer's Local Agency Investment Fund	5,500,000	5,500,000	2,000,000	2,000,000
Mutual fund investments	6,785,445	6,400,343	3,000,000	2,800,000
Employee-deferred compensation plan (held in mutual funds)	13,859,002	13,859,002	12,826,602	12,826,602
Total investments not required to be categorized	26,144,447	25,759,345	17,826,602	17,626,602
Total investments	129,112,626	$121,410,399	58,631,102	57,899,719
Cash deposits	4,906,014		7,200,046	
Net cash and investments	$134,018,640		65,831,148	

IMPERIAL IRRIGATION DISTRICT

Notes to Combined Financial Statements, Continued

NOTE 3 Interdepartmental Transactions
Although the Water and Power Departments of the District maintain separate accounting records, there are certain interdepartmental transactions Significant transactions primarily involve charges by the Water Department to the Power Department for the use of water to generate electricity on the canal system and for the use of buildings, vehicles and equipment.

The interdepartmental charge for use of water in the All-American Canal to generate electricity is based upon amounts authorized by the Board of Directors in 1976 and 1988.

Charges for use of buildings, vehicles and equipment are based upon a pro rata distribution of costs of related maintenance operation and depreciation.

General and administrative expenses of the District are allocated between departments, with the majority of the expenses allocated 50% to the Power Department and 50% to the Water Department

NOTE 4 Utility Plant
Utility plant is comprised of the following at December 31, 1994 and 1993:

	1994			1993		
	Water Department	Power Department	Combined	Water Department	Power Department	Combined
Land and land rights	$ 8,113,619	5,864,194	13,977,813	6,811,445	5,837,490	12,648,935
Structures and improvements	6,238,371	66,845,736	73,084,107	6,170,077	66,587,581	72,757,658
Canals	147,899,862	—	147,899,862	137,373,307	—	137,373,307
Drainage	35,268,940	—	35,268,940	33,180,144	—	33,180,144
All-American Canal	23,863,478	—	23,863,478	23,863,478	—	23,863,478
Conservation equipment	961,833	—	961,833	961,833	—	961,833
Dredges and field equipment	6,956,880	1,540,369	8,497,249	7,795,842	1,534,719	9,330,561
Automobiles and trucks	8,140,587	10,573,510	18,714,097	8,016,900	11,088,638	19,105,538
Other plant equipment	20,877,607	28,378,009	49,255,616	20,267,875	28,782,332	49,050,207
Steam plant equipment	—	107,502,435	107,502,435	—	105,601,840	105,601,840
Hydroelectric generating equipment	—	21,569,333	21,569,333	—	21,435,774	21,435,774
Gas turbines	—	23,952,880	23,952,880	—	23,949,567	23,949,567
Transmission plant	—	193,871,633	193,871,633	—	190,871,518	190,871,518
Distribution plant	—	223,200,229	223,200,229	—	200,180,184	200,180,184
Reservoirs and dams	4,977,445	3,621,022	8,598,467	4,933,721	3,613,716	8,547,437
Plant in service	263,298,622	686,919,350	950,217,972	249,374,622	659,483,359	908,857,981
Less accumulated depreciation:						
Balance at beginning of year	47,764,897	179,136,318	226,901,215	42,528,734	162,821,782	205,350,516
Add:						
Depreciation of fixed assets not acquired through contributions	2,916,362	17,456,445	20,372,807	2,844,346	15,903,619	18,747,965
Depreciation of fixed assets acquired through contributions	3,188,527	1,599,684	4,788,211	2,934,015	1,759,680	4,693,695
Less retirements, net	(1,561,810)	(2,026,934)	(3,588,744)	(542,198)	(1,348,763)	(1,890,961)
Balance at end of year	52,307,976	196,165,513	248,473,489	47,764,897	179,136,318	226,901,215
	210,990,646	490,753,837	701,744,483	201,609,725	480,347,041	681,956,766
Construction in process	518,432	1,611,911	2,130,343	1,129,274	2,999,444	4,128,718
Net book value of utility plant assets	$211,509,078	492,365,748	703,874,826	202,738,999	483,346,485	686,085,484

Depreciation and amortization expense for the years ended December 31, 1994 and 1993 are allocated as follows:

Included in operation and maintenance expenses	$ 1,079,234	1,108,505	2,187,739	1,284,304	961,754	2,246,058
Provision for depreciation	5,025,655	17,947,624	22,973,279	4,494,057	16,701,545	21,195,602
Total depreciation	6,104,889	19,056,129	25,161,018	5,778,361	17,663,299	23,441,660
Amortizatin of contributions	(3,188,527)	(1,599,684)	(4,788,211)	(2,934,015)	(1,759,680)	(4,693,695)
Net reduction of retained earnings from depreciation	$ 2,916,362	17,456,445	20,372,807	2,844,346	15,903,619	18,747,965

NOTE 5 Deferred Compensation Plan

The District offers a Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457 to its employees, allowing them to defer or postpone receipt of income. Amounts so deferred may not be paid to the employee during employment with the District except for a catastrophic circumstance creating an undue financial hardship for the employee.

Investments made under the Deferred Compensation Plan are stated at market value, and all gains and losses realized on such investments accrue directly to the benefit or detriment of the participants. At December 31, 1994 and 1993, net assets available for benefits amounted to $13,859,002 and $12,826,602, respectively.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are, until paid or made available to the employee or other beneficiary, solely the property and rights of the District, without being restricted to the provisions of benefits under the plan, subject only to the claims of the District's general creditors. Participant's rights under the plan are equal to those general creditors of the District in an amount equal to the fair market value of the deferred account for each participant.

It is the opinion of the District's legal counsel that the District has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor. The District believes that it is unlikely that it will use the assets of the plan to satisfy the claims of general creditors in the future.

NOTE 6 Long-Term Debt

Long-term debt consists of the following at December 31, 1994 and 1993:

1994

	Water Department		Power Department		
	Current Portion	Long-Term Portion	Current Portion	Long-Term Portion	Total
Certificates of Participation – 1990, net of unamortized original issue discount of $1,090,454 and cumulative accretion of $1,825,157 on capital appreciation certificates (note 7)	$ —	—	4,070,000	44,039,703	48,109,703
Certificates of Participation – 1991, net of unamortized original issue discount of $48,002 (note 7)	—	—	6,030,000	20,076,998	26,106,998
Certificates of Participation – 1993, net of unamortized original issue discount of $447,952 (note 7)	—	—	385,000	43,087,048	43,472,048
Certificates of Participation – 1994, net of unamortized original issue premium of $309,279 (note 7)	—	—	100,000	59,914,279	60,014,279
Water bonds payable (note 9)	67,800	1,880,544	—	—	1,948,344
Obligation under capital lease (note 10)	171,980	252,242	130,130	374,816	929,168
	$ 239,780	2,132,786	10,715,130	167,492,844	180,580,540

1993

	Water Department		Power Department		
	Current Portion	Long-Term Portion	Current Portion	Long-Term Portion	Total
Certificates of Participation – 1990, net of unamortized original issue discount of $1,161,724 and cumulative accretion of $1,374,046 on capital appreciation certificates (note 7)	$ —	—	3,830,000	47,587,322	51,417,322
Certificates of Participation – 1991, net of unamortized original issue discount of $62,548 (note 7)	—	—	5,745,000	26,092,452	31,837,452
Certificates of Participation – 1993, net of unamortized original issue discount of $478,219 (note 7)	—	—	375,000	43,441,781	43,816,781
All-American Canal obligation (note 8)	572,272	—	40,803	—	613,075
Water bonds payable (note 9)	65,159	1,948,343	—	—	2,013,502
Obligation under capital lease (note 10)	266,914	422,508	123,425	504,214	1,317,061
	$ 904,345	2,370,851	10,114,228	117,625,769	131,015,193

NOTE 7 Certificates of Participation

1990 Issue

In April 1990, the District issued $103,815,000 of 1990 Certificates of Participation (1990 COPs) to finance the retrofitting of a generating unit at the District's El Centro Steam Plant, the purchase of an existing steam-electric generating unit and combustion turbine-electric generating unit, the construction of an office facility and additions and improvements to the District's transmission and distribution facilities, including normal additions and extensions

1990 COPs in the form of current interest certificates mature from 1990 through 2009, inclusive, with interest of 5.8% to 7.8% payable semiannually. 1990 COPs in the form of capital appreciation certificates mature from 2000 through 2004, for which interest compounds semiannually but is not paid until maturity or earlier redemption. These certificates were recorded net of original issue discount of $2,482,399.

The terms of the 1990 COPs' obligation indenture require maintenance of certain financial ratios with which the District has complied for 1994 and 1993.

On August 26, 1993, the District issued $44,295,000 of 1993 Refunding Certificates of Participation (1990 Electric System Project) (1993 COPs) to partially defease $39,380,000 of outstanding 1990 COPs (those serial current interest 1990 COPs maturing November 1, 2001 and 2003, and those term current interest 1990 COPs maturing November 1, 2005 and 2009) These 1990 COPs are considered to be defeased and the liability for those COPs has been removed from the District's combined balance sheet (see 1993 Issue elsewhere in this note). The balance outstanding of 1990 COPs considered defeased was $39,380,000 at December 31, 1994 and 1993.

The outstanding balance of 1990 COPs was $48,109,703 and $51,417,322, net of the unamortized original issue discount of $1,090,454 and $1,161,724 and cumulative accretion on capital appreciation certificates of $1,825,157 and $1,374,046 at December 31, 1994 and 1993, respectively.

A summary of debt service for the District's outstanding 1990 COPs is as follows (accretion on capital appreciation certificates is included in interest in year paid):

Due Date	Principal Amount	Interest	Total Dept Service
November 1, 1995	$ 4,070,000	2,833,123	6,903,123
November 1, 1996	4,335,000	2,572,643	6,907,643
November 1, 1997	4,615,000	2,290,868	6,905,868
November 1, 1998	4,920,000	1,986,278	6,906,278
November 1, 1999	5,245,000	1,656,638	6,901,638
Thereafter	24,190,000	14,602,373	38,792,373
	$ 47,375,000	25,941,923	73,316,923

1991 Issue

In December 1991, the District issued $32,925,000 of 1991 Refunding Certificates of Participation (1983 Electric System Project) (1991 COPs) at an average interest rate of 5% to advance refund $30,010,000 of outstanding 1983 COPs maturing on or after May 1, 1994. These 1983 COPs maturing on or after May 1, 1994 are considered to be defeased and the liability for those COPs has been removed from the District's combined balance sheet. The balance of 1983 COPs considered defeased was repaid in 1993.

The 1991 COPs are payable annually on May 1 in amounts from $630,000 to $7,070,000. Interest is payable semiannually on November 1 and May 1 at rates ranging from 4.3% to 5.75%

The terms of the 1991 COPs' obligation indenture require maintenance of certain financial ratios with which the District has complied for 1994 and 1993.

The outstanding balance of 1991 COPs was $26,106,998 and $31,837,452, net of unamortized original issue discount of $48,002 and $62,548, at December 31, 1994 and 1993, respectively.

A summary of debt service for the District's outstanding 1991 COPs is as follows:

Due Date	Principal Amount	Interest	Total Dept Service
May 1, 1995	$ 6,030,000	1,291,219	7,321,219
May 1, 1996	6,350,000	958,306	7,308,306
May 1, 1997	6,705,000	595,103	7,300,103
May 1, 1998	7,070,000	203,263	7,273,263
	$ 26,155,000	3,047,891	29,202,891

1993 Issue

On August 26, 1993, the District issued $44,295,000 of 1993 Refunding Certificates of Participation (1990 Electric System Project) (1993 COPs) at an average interest rate of 4.9% to advance refund $39,380,000 of outstanding 1990 COPs which mature on November 1, 2001, 2003, 2005 and 2009 with an average interest rate of 6.8%. The net proceeds of $43,220,366 (after payment of $1,074,634 in underwriting fees and other issuance costs) plus an additional $1,197,061 of 1990 COPs reserve and other fund monies were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1990 COPs being defeased. As a result, the 1990 COPs maturing on November 1, 2001, 2003, 2005 and 2009 are considered to be defeased and the liability for those COPs has been removed from the District's combined balance sheet.

Although the advance refunding resulted in the recognition of an accounting loss of $5,132,205 for the year ended December 31, 1993, the District in effect reduced its aggregate debt service payments by $2,118,243 over the next seven years resulting in an economic gain (difference between the present values of the old and new debt service) of $1,333,031.

The 1993 COPs are payable annually on November 1 in amounts from $375,000 to $8,970,000. Interest is payable semiannually on November 1 and May 1 at rates ranging from 2.7% to 5.2%.

The terms of the 1993 COPs' obligation indenture require maintenance of certain financial ratios with which the District has complied for 1994 and 1993.

The outstanding balance of 1993 COPs was $43,472,048 and $43,816,781, net of unamortized original issue discount of $447,952 and $478,219, at December 31, 1994 and 1993, respectively.

A summary of debt service for the District's outstanding 1993 COPs is as follows:

Due Date	Principal Amount	Interest	Total Dept Service
November 1, 1995	$ 385,000	2,148,403	2,533,403
November 1, 1996	395,000	2,135,698	2,530,698
November 1, 1997	410,000	2,121,478	2,531,478
November 1, 1998	425,000	2,105,488	2,530,488
November 1, 1999	445,000	2,088,275	2,533,275
Thereafter	41,860,000	13,725,123	55,585,123
	$ 43,920,000	24,324,465	68,244,465

1994 Issue

On April 19, 1994, the District issued $59,805,000 of Certificates of Participation (1994 Electric System Project) (1994 COPs) to provide funds to finance a portion of the costs of the 1994 Electric System Project, consisting of major additions and improvements to the District's electric system.

The 1994 COPs consist of $500,000 serial certificates at rates ranging from 3.00% to 4.50% maturing on November 1, 1994 through 1998 and $59,305,000 term certificates maturing on November 1, 2004, 2011, 2015 and 2018 at 6.00%, 6.75%, 6.00% and 6.00%, respectively. The term certificates are subject to mandatory prepayment prior to their respective maturity dates, in part by lot beginning November 1, 1999, 2005, 2012 and 2016, respectively. The certificates maturing on and after November 1, 2005 are subject to prepayment prior to their respective maturity dates at the option of the District as a whole or in part on any date on or after November 1, 2004. Any prepayments on November 1, 2004 through October 31, 2005 are subject to a prepayment premium of 2%; November 1, 2005 through October 31, 2006, 1%, and no prepayment premium thereafter.

The 1994 COPs were issued with an original issue premium of $318,375 and costs of issuance of $1,046,806, which are amortized to interest expense over the life of the 1994 COPs. The balance of 1994 COPs outstanding was $60,014,403, including unamortized original issue premium of $309,396, at December 31, 1994.

The terms of the 1994 COPs Installment Purchase Contract require maintenance of certain financial ratios with which the District has complied for 1994.

A summary of debt service for the District's outstanding 1994 COPs is as follows:

Due Date	Principal Amount	Interest	Total Dept Service
November 1, 1995	$ 100,000	3,668,800	3,768,800
November 1, 1996	100,000	3,665,400	3,765,400
November 1, 1997	100,000	3,661,400	3,761,400
November 1, 1998	100,000	3,657,000	3,757,000
November 1, 1999	430,000	3,652,500	4,082,500
Thereafter	58,875,000	52,244,588	111,119,588
	$ 59,705,000	70,549,688	130,254,688

NOTE 8 All-American Canal Contract

Pursuant to the terms of the Boulder Canyon Project, the All-American Canal contract dated December 1, 1932 and the amendment and supplement to that contract dated March 4, 1952, the District assumed an initial obligation of $25,020,000 to the Federal Government. This amount represents the District's share of the All-American Canal system construction costs. This obligation has been allocated to the Water and Power Departments based on the relative cost of each department's respective utility plant located on the All-American Canal system. Except for the final combined payments of $613,075 made in 1994, no other amounts are due to the Federal Government for water supplied to the District. The contract contains no provision for the payment of interest by the District, and no rate has been imputed. The unpaid balance at December 31, 1993 of $613,075 was paid in full in 1994.

The District receives its entire water supply for its irrigation system from the Federal Government under this contract. Deliveries of water and use of the All-American Canal are guaranteed, in perpetuity, to the District as long as the provisions of the contract are met.

Under the All-American Canal contract and certain other agreements, the District has the right to avail itself of hydroelectric generation from the water flow through the Canal, subject to the sharing of certain derived revenues with another water district. The most significant of such sharing arrangements is with the Coachella Valley County Water District (Coachella). In 1934, Coachella leased its power rights on the Canal to the District for a period of 99 years. Expenses under this agreement are paid to the Federal Government for the credit of Coachella and are regarded as payments made under the District's normal obligation under the All-American Canal contract.

NOTE 9 Bonds Payable

In 1988, pursuant to the State of California Clean Water Bond Law of 1984, the State of California loaned the District $1,600,000 to pay costs associated with a water conservation program. The amounts are payable in semiannual installments on April 1 and October 1 until the principal is repaid. Interest accrues at 4.013% per annum.

In 1990, the State of California loaned the District an additional $680,000 to pay for eligible project costs, therefore increasing the total obligation to $2,280,000. The unpaid balance at December 31, 1994 and 1993 was $1,948,343 and $2,013,502, respectively.

The debt service on such obligation is as follows:

	Principal	Interest	Total Debt Service
1995	$ 67,800	77,511	145,311
1996	70,548	74,763	145,311
1997	73,407	71,904	145,311
1998	76,382	68,929	145,311
1999	79,478	65,833	145,311
Thereafter	1,580,729	504,855	2,085,584
	$1,948,344	863,795	2,812,139

NOTE 10 Capital Leases

The District has acquired certain operating and computer equipment through lease purchase agreements. The District also acquired real property in El Centro through a lease purchase agreement extending over a ten-year period.

A summary of the lease payments is as follows:

	Operating Equipment	Computer Equipment	Real Property	Total
1995	$ 106,183	191,615	53,416	351,214
1996	1,232	168,067	53,416	222,715
1997	—	166,097	53,416	219,513
1998	—	141,588	53,416	195,004
1999	—	295	53,416	53,711
Thereafter	—	—	8,903	8,903
	107,415	667,662	275,983	1,051,060
Less interest portion	(3,104)	(67,993)	(50,795)	(121,892)
Net	$ 104,311	599,669	225,188	929,168

NOTE 11 Employee Benefit Plan

The District has a defined benefit pension plan (the Plan) covering substantially all of its employees. Under the terms of the Plan, employees are eligible to participate after completing six months of continuous service. Employees become vested in the Plan after four years of continuous service and after attaining the age of 40.

The District's contribution to the Plan is determined by the aggregate-entry-age-normal-cost method. That is, it takes into account those benefits that are expected to be earned in the future as well as those already accrued. Contributions made by the District and retirement benefits vary depending upon the age of the employee at the date of entry into the Plan, the average basic salary attained and the employee's retirement age.

The District's contributions to the Plan were as follows:

	December 31 1994	December 31 1993
Normal cost	$ 2,080,623	2,062,306
Unfunded actuarial accrued liability	1,604,022	1,269,392
Total contributions	$ 3,684,645	3,331,698

Retirement benefits are payable beginning at age 65 based on 75% of the employee's highest basic monthly salary times the ratio of completed months of credited service. Vested employees may retire at or after age 55 and receive reduced retirement benefits provided 10 years of continuous service has been achieved. Benefits are payable based on the actuarial equivalent of accrued benefits. The Plan also includes death and disability benefits.

A summary of the financial position of the Plan at January 1, 1994 and 1993, the most recent actuarial data available, is as follows:

IMPERIAL IRRIGATION DISTRICT

Notes to Combined Financial Statements, Continued

	January 1 1994	January 1 1993
Pension benefit obligation:		
Inactive employees:		
Retirees	$ 65,024	58,912
Vested terminated	—	—
Disabled/death	—	—
	65,024	58,912
Active employees:		
Accumulated employee contributions	4,507,024	4,950,585
Employer-paid vested benefits	19,124,813	18,346,444
Employer-paid nonvested benefits	2,966,333	2,055,995
	26,598,170	25,353,024
Total pension benefit obligation	26,663,194	25,411,936
Net assets available for benefits	26,738,997	31,845,448
Net assets in excess of pension benefit obligation	$ 75,803	6,433,512

The term "pension benefit obligation" reflects the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. Significant assumptions used to determine the pension benefit obligation and the actuarial accrued liability include:

- A rate of return on the investment of present and future assets of 8%
- Salary increases of 6% per year compounded annually
- Loading for expenses: 2% of gross cost
- Retirement age of 65.

Certain historical trend information is summarized as follows:

	December 31 1994	December 31 1993
Total payroll	$49,380,314	49,239,183
Covered payroll	$44,151,673	44,157,842
District contributions as a percentage of annual covered payroll	8.35%	7.55%

Additional trend information is as follows (information not available prior to 1989):

	December 31					
	1994	1993	1992	1991	1990	1989
Net assets available for benefits	$26,738,997	31,845,448	29,711,272	26,670,346	25,605,788	23,501,467
Pension benefit obligation	26,663,194	25,411,936	23,796,289	22,088,928	20,603,450	16,359,777
Percent funded	100.28%	125 32%	124.86%	120.74%	124 28%	143.65%
Assets in excess of pension benefit obligation	75,803	6,433,512	5,914,983	4,581,418	5,002,338	7,141,690
Annual covered payroll	$44,151,673	44,157,842	41,459,746	38,098,392	33,682,560	29,945,040
Assets in excess of pension benefit obligation as a percent of covered payroll	17%	14.57%	14.27%	12.03%	14.85%	23.85%
Total District contributions	$ 3,684,645	3,331,698	3,133,898	2,365,294	2,030,677	1,696,000
District contributions as a percent of annual covered payroll	8.35%	7.55%	7.56%	6.20%	6.02%	5.66%

Amounts charged to operations were $3,331,698 and $3,133,898 for 1994 and 1993, respectively.

NOTE 12 Commitments and Contingencies

Litigation

In the ordinary course of operations, the District is the subject of claims and litigation from outside parties. After consultation with legal counsel, the District believes that adequate provision has been made for the costs, if any, of the ultimate outcome of the legal proceedings, such that these matters will not materially affect the District's combined financial condition.

Self-Insurance

The District is self-insured for workers' compensation claims and employee medical care benefits. At December 31, 1994 and 1993, the District accrued $2,852,000 and $2,592,000, respectively, for estimated claims to be paid in the future. In addition, the District is partially self-insured for general claims and carries excess insurance coverage for general liability matters. At December 31, 1994 and 1993, the District's management accrued $15,315,000 and $4,369,000, respectively, for estimated claims. Such amounts have been included in other accrued expenses in the accompanying combined balance sheets for 1994 and 1993, respectively.

Take or Pay Contracts

The District has two energy and capacity contracts with Southern California Public Power Authority (SCPPA), a joint powers authority organized under the laws of the state of California. Under the first contract, the District purchases 6.5% of the energy generated by SCPPA's 5.91% ownership in the Palo Verde Nuclear Project (the Palo Verde Project), a nuclear-fueled generating station. Under the second contract, the District purchases 50.98% of the capacity and energy generated by SCPPA's 41.8% ownership of the San Juan Unit 3 Project (the San Juan Project). The terms of the contracts require that the District make certain minimum payments, whether or not the District receives power, based upon the debt service requirements of the projects. The District's estimates of such minimum payments are:

	Palo Verde Project	San Juan Project	Total SCPPA Take or Pay Commitment
1995	$ 5,540,000	6,111,000	11,651,000
1996	5,540,000	7,650,000	13,190,000
1997	5,512,000	9,188,000	14,700,000
1998	5,512,000	9,188,000	14,700,000
1999	5,512,000	9,188,000	14,700,000
Thereafter	100,496,000	174,568,000	275,064,000
	$ 128,112,000	215,893,000	344,005,000

The District makes monthly payments to SCPPA for its portion of costs, which includes charges for decommissioning the nuclear power plant and acquisition, operation and maintenance of the electric generating plant. Such charges are recorded by the District as cost of fuel in the accompanying combined statements of income.

Energy Supply Purchase Commitment

The District has an energy supply contract with El Paso Electric Company. The agreement terminates April 30, 2002. The purchase commitment is all energy supplied under the contract up to 150 megawatts. All energy over 150 megawatts is to be charged at a fixed rate. The District's estimated yearly purchase commitment under this agreement is as follows:

	Yearly Purchase Commitment
1995	$ 35,460,000
1996	35,460,000
1997	35,460,000
1998	35,460,000
1999	35,460,000
Thereafter	106,380,000
	$283,680,000

Heber-Mirage Transmission Project

The District entered into an agreement with several independent small power producers operating in the Imperial Valley. The agreement provided for the construction of the Heber-Mirage Transmission Project (Project) consisting of a new electric transmission line and alternative energy resource facility. The Project was funded entirely by the participants and was completed in 1988. The total extent of the participants' funding contributions, as provided for by the agreement, totaled $65,188,400.

In exchange for such funding contributions to construct the Project, the District agreed to grant each participant transmission credits equal to the total amount of their respective contributions, including finance costs and other fees. These transmission credits are used to offset periodic energy billings for power generated by the Project and sold to the participants, and expire after 15 years from the completion date of the Project.

Postretirement Benefits

In addition to the pension benefits described in note 11 to the combined financial statements, the District provides health and medical insurance benefits for its retired employees. Employees are eligible upon reaching the normal retirement age of 65 or upon early retirement at 55 with ten years of service. Approximately 260 employees meet the eligibility requirements. The District pays the majority of the monthly premium depending upon the age of the employee and the number of dependents the employee wished to include in the plan. Expenses for this plan are recognized on a "pay-as-you-go" basis. Premiums for such health benefits, which are not significant as compared to total administrative expenses, are expensed when claims are paid and amounted to approximately $1,457,123 and $1,030,552 for 1994 and 1993, respectively.

NOTE 13 Metropolitan Water District Water Conservation Program

Beginning in January 1990, the District received payments from the Metropolitan Water District of Southern California (MWD), to initiate a water conservation program. The purpose of such payments is to provide capital for District-constructed water conservation projects in the Imperial Valley. In 1994 and 1993, the District received $6,761,275 and $13,590,948, respectively, as reimbursement for approved capital costs. Cumulative payments received total approximately $93,926,954 and $88,881,632 at December 31, 1994 and 1993, respectively. The District will be reimbursed for approved amounts, including certain indirect costs, through the year 2028. In return for such payments, MWD will be entitled to receive the water that is estimated to be conserved as a result of the implemented conservation measures. In 1993, the District received an additional $4,600,000 from MWD that is included in other restricted cash and has been set aside for indirect costs.